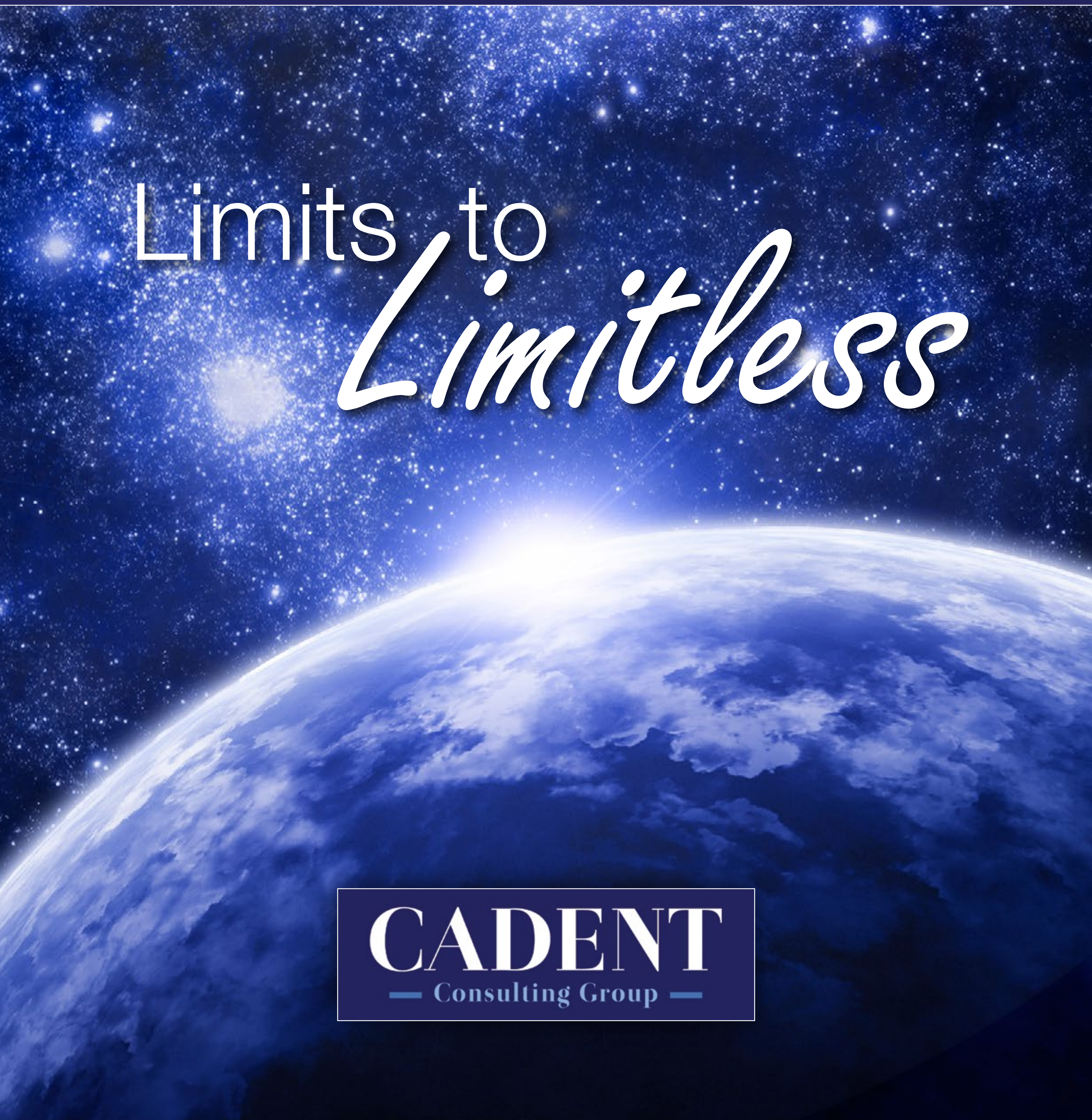
2014 Marketing Spending Industry Study



Limits to *Limitless*

CADENT
Consulting Group

OVERVIEW

CADENT Consulting Group 2014 Marketing Spending Industry Study

Who is Cadent Consulting Group?

Cadent Consulting Group, established by the founders and senior leadership team from Cannondale Associates, 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.

Mission

Our mission at Cadent is to help our clients drive growth & profitability while optimizing investment and organization productivity. We aim to translate insights into competitive advantage for our clients.

Research Objectives/Methodology

Cadent Consulting Group's Management Team, while at Cannondale Associates, published the first Category Management/Leadership Industry Study in 1994 closely followed by the Trade Promotion Industry Study in 1995 and the annual PoweRanking Study in 1997. Twenty years of experience in category management, trade promotion and industry best practices has deepened our knowledge and expertise across manufacturers, retailers and shoppers. Inclusion of the shopper is a totally new component to our traditional manufacturer/retailer studies. Enhancing manufacturer and retailer perspectives with an understanding of the real boss – the shopper – adds significant insight to the study.

The objective of this Marketing Spending Industry Study is to evaluate actual marketing spending by type, and vehicle, as well as the impact across the 3 constituents – manufacturers, retailers and shoppers.

Why Marketing Spending?

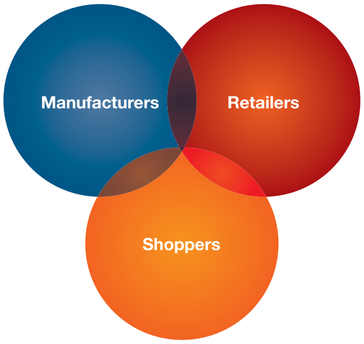
Marketing Spending represents nearly $225 billion in annual expenditures by CPG manufacturers or 20.6% of total sales. How are these spending decisions made? How do they impact sales? What are the perceptions among manufacturers, retailers and shoppers? How are manufacturers and retailers planning in a world of limited resources and constrained budgets while presented with nearly limitless marketing and sales spending opportunities? The growth of Digital and Shopper Marketing has significantly increased complexity. We believe the way to win is to focus on the fundamentals and embrace the complexity.

The specific goals of this 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 not rebounded as forecast or as people expected.
- 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, Digital).
- Retailers are defaulting to the tried and true of what has worked in their stores.



Study Methodology

Over 1,000 manufacturer, retailer and shopper participants were surveyed online with customized questionnaires. Selected in-depth, 1-on-1 follow-ups were completed to gain a better understanding of total marketing spending and effectiveness. Shopper oriented examples were provided to supplement trade terminology in the shopper research section.

EXECUTIVE SUMMARY

CADENT Consulting Group 2014 Marketing Spending Industry Study

Limits to Limitless, at first glance, appears to be a paradox. However, the convergence of two major trends in the industry has created this situation. First, manufacturers have limited resources or resource constraints. Every week we hear about layoffs, reorganizations, and doing more with less. This may be driven by Wall Street demands, acquisitions by private equity firms or just a compelling need to stay competitive. Marketing Spending is also feeling the strain. There is an increased demand to justify the impact of spending on sales and return on investment. These resource constraints are even more evident in the current low growth environment, especially for center store categories.

"Limitless" opportunities, however, are being generated on two fronts: the growth of new marketing spending options driven by personalization, customization and efficiency and, second, the potential to grow in new places or formats. This includes expanding beyond the traditional retail footprint and embracing the complexity of today's environment.

It is this combination of limited resources yet unlimited opportunities to market with new vehicles and in new places that creates this ostensible paradox of limits to limitless.

We will now review some of the key takeaways from this study.

Overall Spending

- Manufacturers are not spending more (20% of sales), just differently. The principle of relative constancy holds; shoppers will only buy so many CPG products so manufacturers only devote so much to convince them to buy more.
- The retail customer remains king with 57% of spending (Trade Promotion and Shopper Marketing) channeled through retailers. There is the potential for this to go even higher with retailer Digital initiatives.
- More personal, customized and targeted spending encompassing Digital and Shopper Marketing, doubled since 2012. Are these the new fundamentals? Manufacturers have increased their budgets from 13.1% to 26.0% across these two spending types. Additionally, the offerings available to marketing and sales departments across Digital and Shopper have exploded.
  – The result is that all types of traditional spending have declined: Advertising, Consumer Promotion and Trade. Are we walking away from the fundamentals or do we have new fundamentals?

Specific Spending Types

- **Trade Promotion:** Nearly 50% of Trade Promotion is channeled into price for either TPR (Temporary Price Reductions) or ongoing price management.
- **Advertising:** Traditional advertising has been validated for generating awareness especially for new products. Overall spending trends, however, are negative and effectiveness is perceived as weak by retailers and shoppers.
- **Consumer Promotion:** This spending classification experienced the greatest percentage declines with funds often re-directed to Digital alternatives. While coupons and discounts are still extremely popular with shoppers, these are not your mother's coupons but discounts delivered in myriad forms. Online coupons are an extremely viable option and possibly curated, custom offers could become the new norm. The race is on to figure out how to do this best.
- **Digital:** The Digital budget is now over half the size of Traditional Advertising. Is this the right budget allocation? Is Digital a totally new way to engage consumers/shoppers or a new means to deliver information and coupons? There is clearly a degree of hype surrounding Digital.
  - Digital spending objectives for most manufacturers range from "awareness/information" to "driving shoppers to the store" to "ecommerce transactions."
  - Digital is a highly fragmented spending type with a strong "test and learn" approach across the spectrum. Manufacturers need to be cognizant of the opportunities but also not over diversify thereby minimizing any potential impact or ability to evaluate.
  - Digital coupons and offers specifically targeted and personalized could become the norm for promotions.
- Shopper Marketing is accelerating and appears to be experiencing a dramatic shift from brand awareness to retail shelf presence. Is Shopper Marketing largely Trade Promotion in sheep's clothing? Is it simply the new account-specific marketing, customer marketing or co-marketing? Or is it truly shopper insight driven?

Evaluation

- Evaluation remains critically important in the overall spending cycle of planning, execution, tracking and evaluation, yet is infrequent in its application. Trade Promotion and Advertising are the highest priorities which should not be surprising given they constitute 66% of overall Marketing Spending. Only Trade Promotion, however, is evaluated on a frequent basis with nearly 50% of manufacturers indicating they assess at least monthly.
- The challenges of evaluation include being heavily judgment based and "siloed." This creates a frustrating experience for marketing departments.
- Digital spending has a bias toward analytical models. But, upon closer evaluation, the analytical models are typically based on "activities" such as click-through, awareness or unique visitors, not sales or ROI.
- Optimally, manufacturers would like to blend off-line with on-line data to integrate influencing factors and truly measure attribution or the impact of marketing touch points on sales. This is the Holy Grail.