

2020 Marketing Spending Industry Study

What's Your P/E?



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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
Benchmarking



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 PowerRanking® Study in 1997. Over 25 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 has published studies on Pricing, Private Label and Path to Purchase, as well as Marketing Spending in 2014 and 2017. This 2020 report offers the latest insight.

Cadent Consulting Group Survey

RESEARCH OBJECTIVES/METHODOLOGY

The objective of the 2020 Marketing Spending Industry Study is to evaluate actual marketing spending by type, and vehicle, as well as the impact across the three constituents – manufacturers, retailers and shoppers.



WHY MARKETING SPENDING?

Marketing Spending represents \$225 Billion in annual expenditures by CPG manufacturers or over 21% of total sales. How are these spending decisions made? How do they impact sales? What are the perceptions among manufacturers, retailers and shoppers? How has the growth of Digital impacted the market since our last Marketing Spending Study in 2017?

We believe the way to win is to focus on the fundamentals while embracing 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 experienced a decade long expansion, but the future remains uncertain.
- These industry factors are impacting marketing spending, especially the price component: 1) The growth of Private Label, 2) The changing retail landscape, and 3) The growing importance of omnichannel.
- The focus is on all things Digital.
- Shoppers are demanding deals and discounts.
- Retailers are defaulting to the tried and true of price.

STUDY METHODOLOGY

Nearly 400 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 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

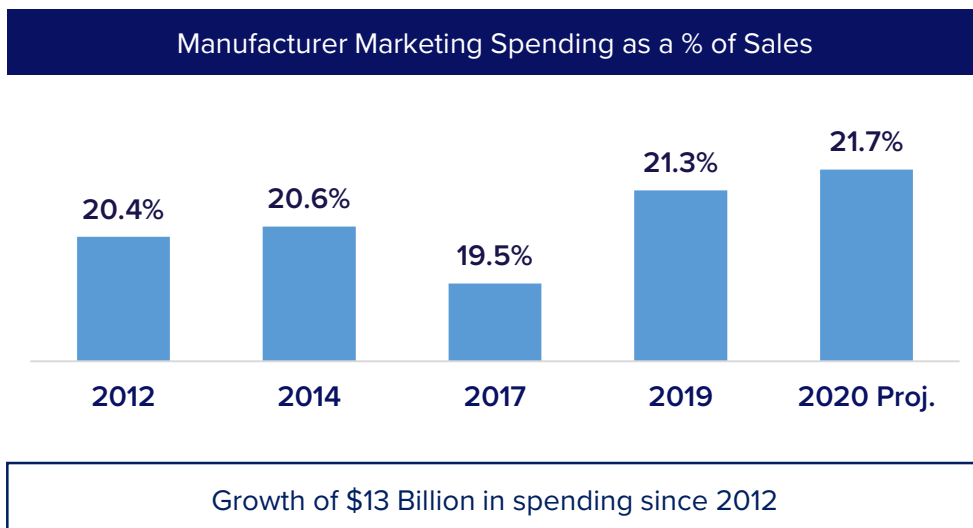
P/E typically refers to a company's price/earnings ratio for its stock. Alternatively, the term can mean "Private Equity." In regard to marketing spending, P/E is the Price/Equity Quotient™. This is calculated by dividing the marketing spending in "Pure Price" by the "Equity Building" investment and excluding Blended Price/Equity Building spending. A central finding from this study is that the spending on **price** now **exceeds** the investment in **brand equity**.

The rate of change in consumer goods and retail continues to accelerate. Just 10 years ago, many of the influences of today were not nearly as impactful, nor would many have predicted their growth. Three such forces of change include: 1) The growth of Private Label, 2) The diversification of the retail landscape, and 3) The growing importance of an omnichannel approach. Given significant shifts, it is critical to understand how marketing dollars are being spent, and why.

This 2020 Marketing Spending industry study revealed a significant shift in spending away from *equity building* and toward *price*. This shift raises some important questions. Has this been a strategic decision on the part of manufacturers or more of a gut reaction as a way to quickly drive volume and "make a number" in a changing, complex, and confusing environment? Is promotion now being heavily relied on to "buy down" everyday pricing? And, more broadly, is pricing-focused spending versus equity building properly balanced?

MARKETING SPENDING OVERVIEW

Overall, Marketing Spending has increased from an average of 20.2% (2012/2014/2017) to 21.5% in 2019/2020. This increase of 1.3 points represents nearly \$13 Billion across the nearly \$1 Trillion CPG landscape. Whatever your portion of this is, it's important to get your spending right and know how to best invest your next dollar.



Executive Summary (cont'd)

THE SHIFT

Private Label is experiencing a “Sea Change.” Growth is not being driven by a recession, but rather by retailer “Branding of Private Label.” Today, many categories and retailers boast Private Label shares greater than 25-30+%.

The retail landscape has now developed far beyond food, drug, and mass channels. Today’s channel challenges have been complicated by the expansion of Natural Grocery, Convenience Stores, Club Stores, Dollar Stores, Deep Discounters, Specialty, and of course, the Internet.

Whether it’s for commerce, communications, comparison shopping, or research – consumers and shoppers are online. Data indicates that 80% of shoppers have shopped online in the past month, and that online behavior cuts across all generations. Manufacturers and retailers alike are seeking to develop capabilities, but some are more ready than others. One thing is for certain – it is having an effect on how we go to market.

The focus on price as a component of the overall marketing budget has increased by 8 points or \$18 Billion! This vast increase has been channeled toward temporary price reductions and everyday price management. The source of these funds has primarily been in-store display activity and traditional marketing. There is a clear focus on price and a move away from equity building. Are your brands at the right price in the right outlets? What is your Price/Equity Quotient and how is it trending?

Component	% Marketing Spending		
	2014	Current	
Pure Price	25%	33% ↑	+8pts
<ul style="list-style-type: none"> • TPR/Everyday Price • Coupon Incentive 			
Blended Price/Equity Building	37%	36% =	-1pt
<ul style="list-style-type: none"> • Coupon Distribution • Display/F&D/Feature • Shopper Marketing (30%)* • Digital (50%)* 			
Equity Building	38%	31% ↓	-7pts
<ul style="list-style-type: none"> • Advertising • Shopper Marketing (70%)* • Digital (50%)* 			
TOTAL	100%	100%	

Price/Equity Quotient = (Pure Price / Equity Building)
 33% / 31% = 1.06 current (0.66 in 2014)

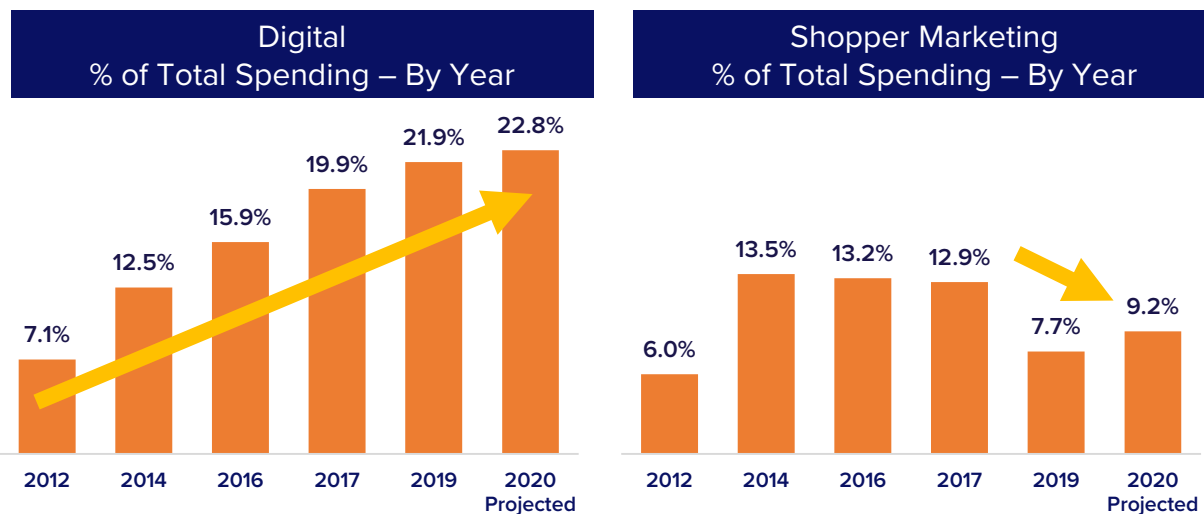
*Varies by manufacturer

Executive Summary (cont'd)

IS DIGITAL THE NEW TRADITIONAL?

In 2012, companies still spent 25.4% of their budget on traditional Advertising and 7.1% on Digital. In 2019, there has been a complete flip: 13.6% spent on traditional Advertising and 21.9% on Digital. Digital spending almost tripled from 2012 to 2017, vastly overtaking traditional Advertising. Projected increases to 2020 indicate that Digital growth may be slowing, with one additional point per year expected in the near-term; this is still significant.

Traditional Advertising and Consumer Promotion appear to have found their new base. Consumer Promotion represents 7%-8% of sales, while traditional Advertising represents 12%-13%. Shopper Marketing has fallen dramatically, from 13.5% of the budget in 2014 to 7.7% in 2019. Other actions also signal declining interest: Shopper Marketing departments are being cut back or disbanded, shopper agencies are transforming into Digital agencies, and the traditional Shopper Marketing proposition of building brand and store equity jointly is more price reliant.



Of the two newer spending components (Digital and Shopper Marketing), there is a clear winner, as Digital has replaced traditional Advertising as the second largest area of spending, behind Trade Promotion. Trade continues to be the largest percent of spend, growing from 43.9% in 2014 to 46.7% in 2019. Trade dollars, however, have shifted dramatically toward price.

SUMMARY

As industry change accelerates, overall Marketing Spending is seeing renewed energy, growing about +1.3 points, or \$13 Billion. Many of the shifts continue to follow previously noted trends, as Digital is becoming the new traditional. In other areas, the winds have changed and the focus on pricing has grown dramatically. It is important to know your Price/Equity Quotient and trend.

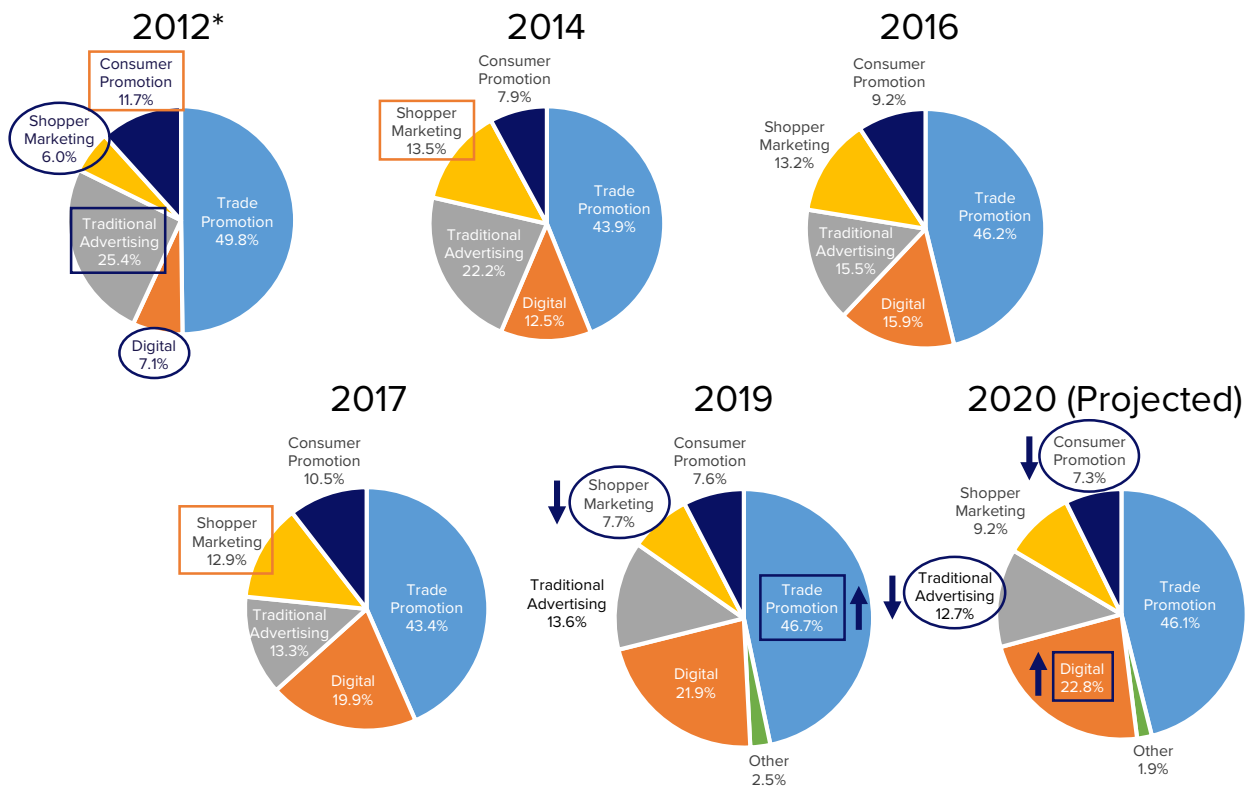
KEY FINDINGS

Marketing Spending: Overall by Type

Logical incrementalism appears to be an apt catchphrase when assessing year-by-year shifts in marketing spending. The broader trends, however, are much more apparent when viewing spending from 2012 to 2020 (projected).

- Digital continues its growth, albeit at a slower rate. It is now the second largest spending component.
- Traditional Advertising continues to fall representing 12.7% of the marketing budget, half of 2012 levels.
- Trade Promotion is marketing spending's stalwart. It remains at nearly half of the overall budget spending.
- Shopper Marketing plateaued then plummeted to nearly 2012 levels.
- Consumer Promotion fell by over one-third now representing only 7.3% of the budget.

Manufacturer – Marketing Spending by Type



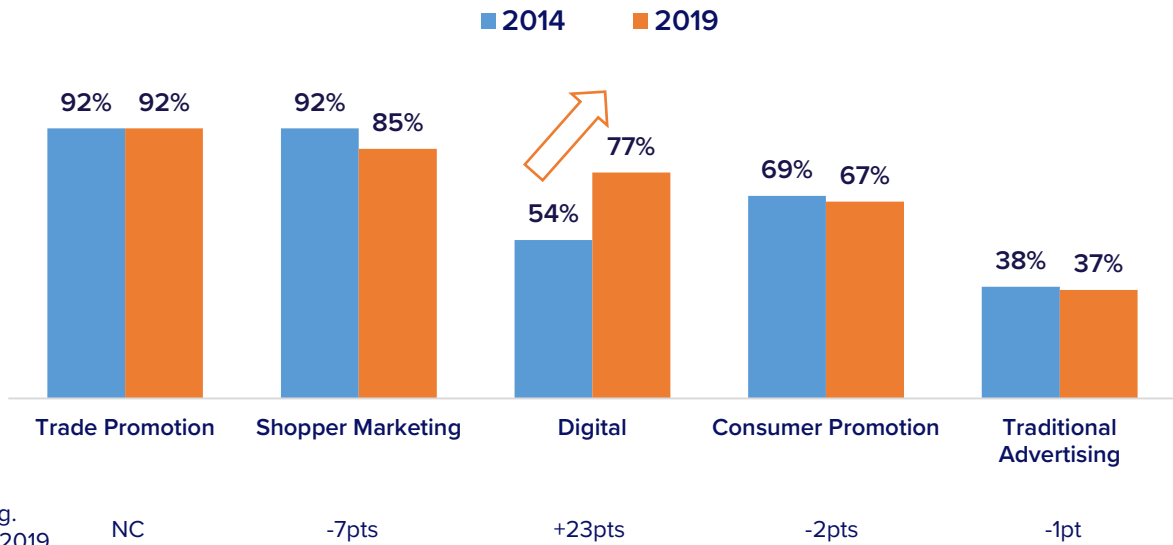
What does this mean from a retailer and shopper perspective?

*2012 data only available for total spending

Marketing Spending: Overall by Type

RETAILER PERSPECTIVE:

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



Trade Promotion and Shopper Marketing are the most effective; Traditional Advertising is rated lowest in effectiveness by retailers; Digital effectiveness is rated much higher.

- Trade Promotion continues to receive the strongest effectiveness scores from retailers at over 90%.
- Retailer perception of Digital jumped by 23 points.
- Retailer perception of the effectiveness of Traditional Advertising remains low.

“

- CPGs seem to be stuck in the rut of always doing what they've always done.
- You must get past all the noise.
- It is important for suppliers to understand our customer and be flexible.
- Vendors need to take into consideration my needs, how I am going to market, how they can help me sell more.

”

Marketing Spending: Overall by Type

SHOPPER PERSPECTIVE:

- Similar to retailer ratings, Trade Promotion is the most effective among shoppers – achieving both the highest awareness score as well as the strongest influence score.
- Shopper Marketing and Consumer Promotion are in the middle of the pack on influence, but Shopper Marketing awareness declined.
- Scores for Digital are disappointingly low; not only is it rarely influencing purchase decisions (25%), but few are aware (28%).
- Traditional Advertising scores are weak for both awareness (36%) and influencing purchase decisions (26%).

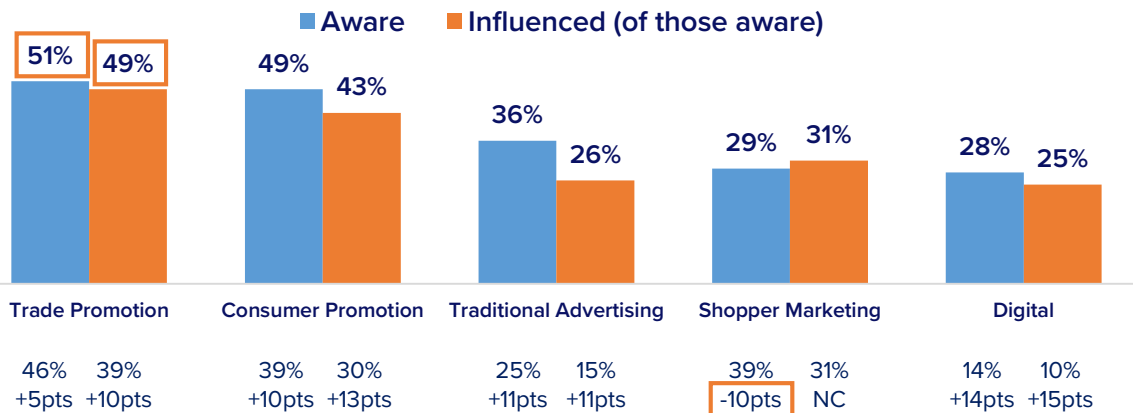
Coupons Look **Price**
Appeal **Discount**
Save **Digital**
Offer **Online** **Deal**
Interest **Attention**

“

- Different methods reach different types of shoppers.
- If it provides clear and relevant info.
- Visuals are highly appealing and eye catching if done right.

”

Shopper – How Effective is Overall Spending in Impacting Shopper Awareness/Purchase Decisions? – 2019

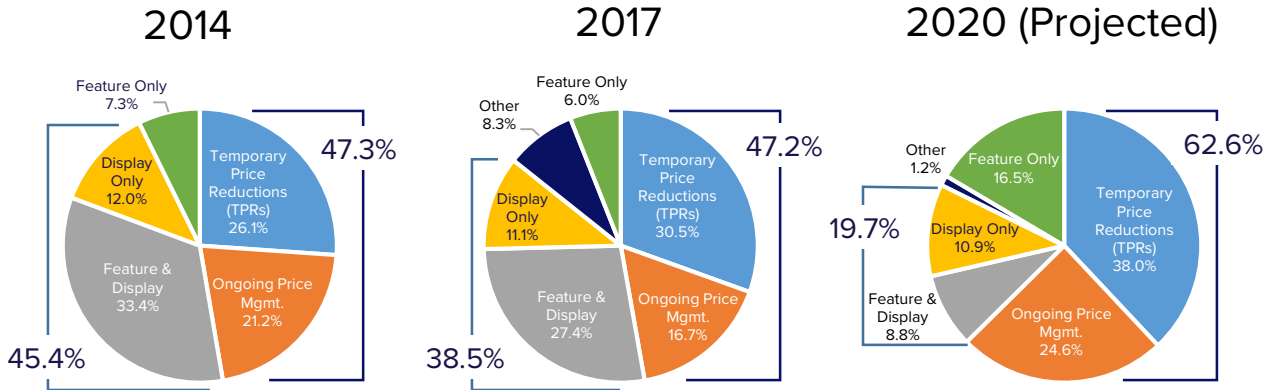


Digital is clearly the lowest in awareness/influence as rated by shoppers, unlike retailers.

*Shopper Study first conducted in 2016

Trade Promotion: The Price You Pay

Manufacturer – Trade Promotion Spending by Vehicle



The “Big Shift” is away from display-oriented activity to price.

A DEEPER DIVE

Trade Promotion is typically about driving immediate volume and less about awareness, building equity or education. Price has made a huge leap in importance representing 62.6% of the trade budget – temporary price reductions and ongoing price management are +15 points vs. 2014 and 2017.

Display oriented support (display only or feature & display) has fallen from 45.4% of the budget in 2014 to 19.7% of the budget (-57%).

- Retailer clean store policies as well as labor costs may be limiting display support. Note that “feature only” more than doubled from 7.3% to 16.5% over the same period.

Trade Promotion: The Price You Pay

RETAILER PERSPECTIVE:

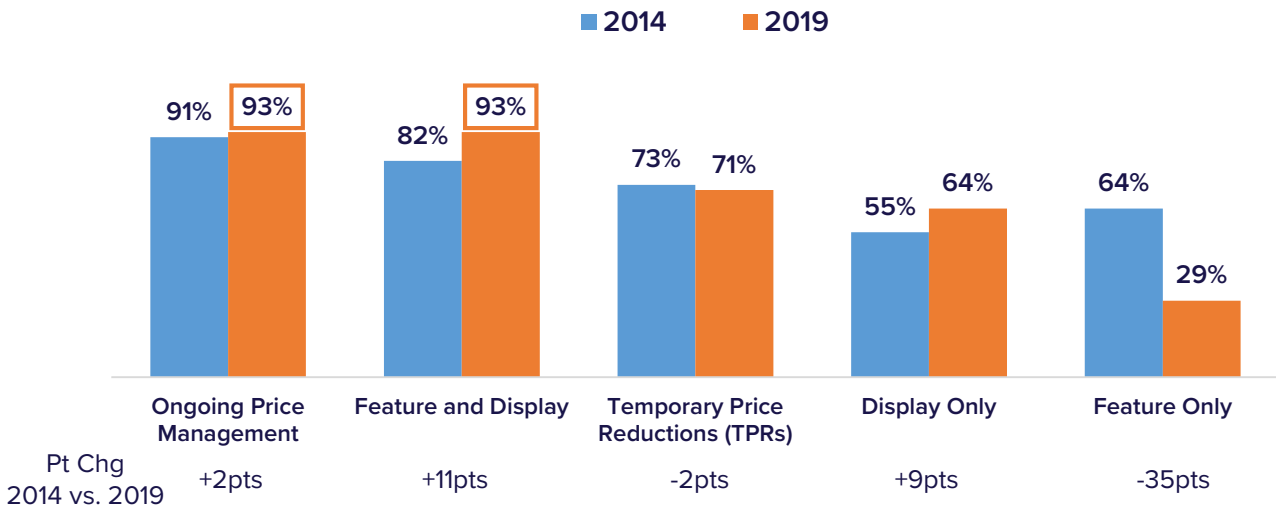
- Ongoing price management and feature & display are tied with 93% of retailers stating they are effective or very effective, however feature & display dramatically declined as a percent of spending.
- Feature only fell to 29% effectiveness (lowest of all vehicles), yet has more than doubled as a percent of the budget. Perhaps retailers recognize a true source of profitability.

“

- Not all categories respond to feature & display yet this is the desire of virtually all CPGs.
- Spending on established brands should focus on getting the right everyday retail on the shelf.

”

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

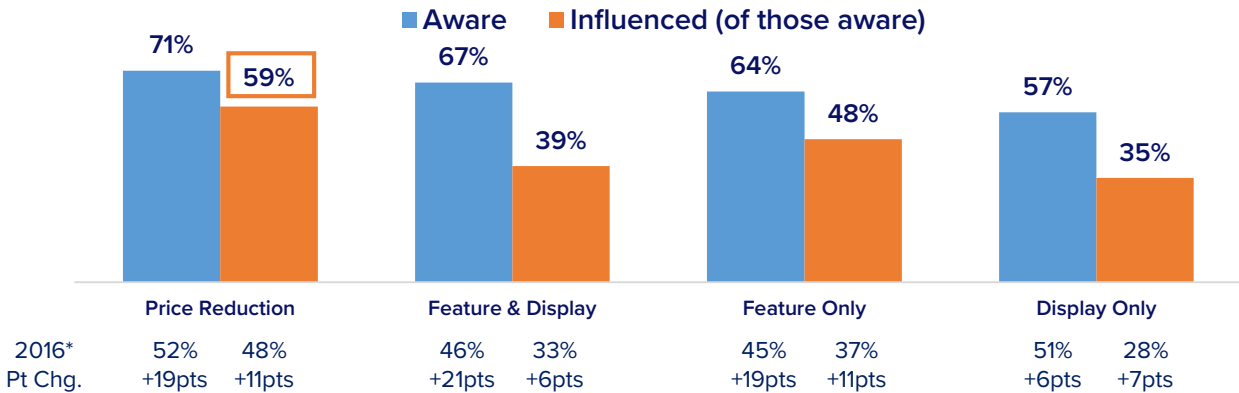


Declining support in conjunction with the importance of feature & display indicates a missed opportunity among retailers.

Trade Promotion: The Price You Pay

SHOPPER PERSPECTIVE:

Shopper – How Effective is Trade Promotion by Type in Impacting Shopper Awareness/Purchase Decisions? – 2019



Price Reduction is #1 in awareness and influence among shoppers.

*Shopper study first conducted in 2016

Awareness of all Trade Promotion vehicles, except displays, jumped approximately 20 points from 2016.

Conversion from awareness to influencing purchase is strongest for price reduction with 59% of those aware being influenced.

“

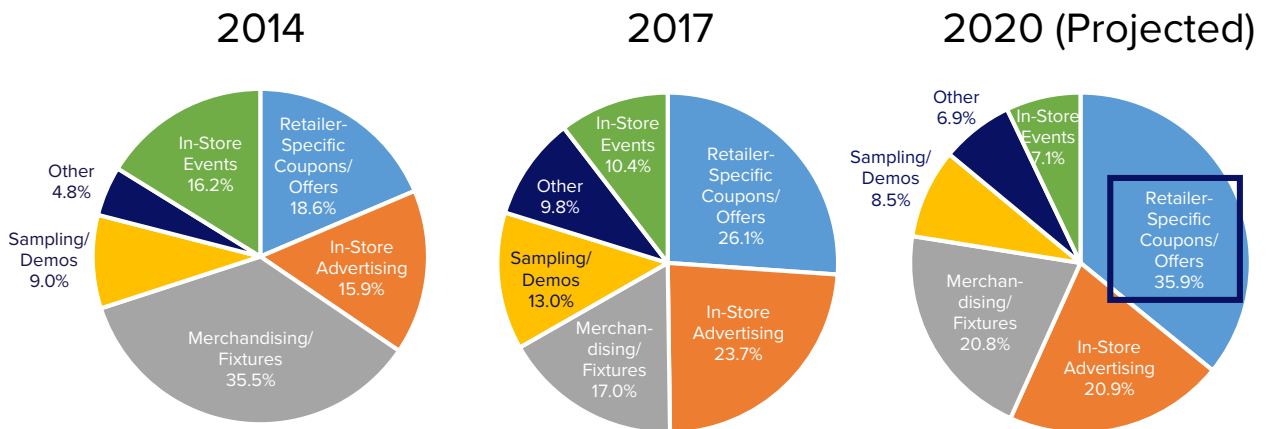
- Promotions that catch you in the moment are most effective because you don't have the time to look to see if you already have it at home and most people cannot resist a good deal
- Having creativity will call attention to your product.
- It all depends on the price.
- The more a discount or coupon is offered the more appeal is generated.

”

Influential **Save**
Price Offer Deal
Product Display
Look **Sale** Coupon
Eye-catching
Cheaper **Store** **Coupon**

Shopper Marketing: Convert Shoppers Into Buyers

Manufacturer – Shopper Marketing Spending by Vehicle



Shopper Marketing is increasingly about retailer-specific coupons/offers; nearly double vs. 2014 at 35.8%.

A MORE BALANCED SPENDING APPROACH

An orientation toward price and a significant increase in retailer-specific coupons/offers has offset declines in nearly every other type of Shopper Marketing support.

- This is in direct conflict with the mission of Shopper Marketing to convert shoppers into buyers while building brand equity through retailers and **not** resorting to price.
- Perhaps the decline in Shopper Marketing is driven by the realization that it is just another form of Trade Promotion.

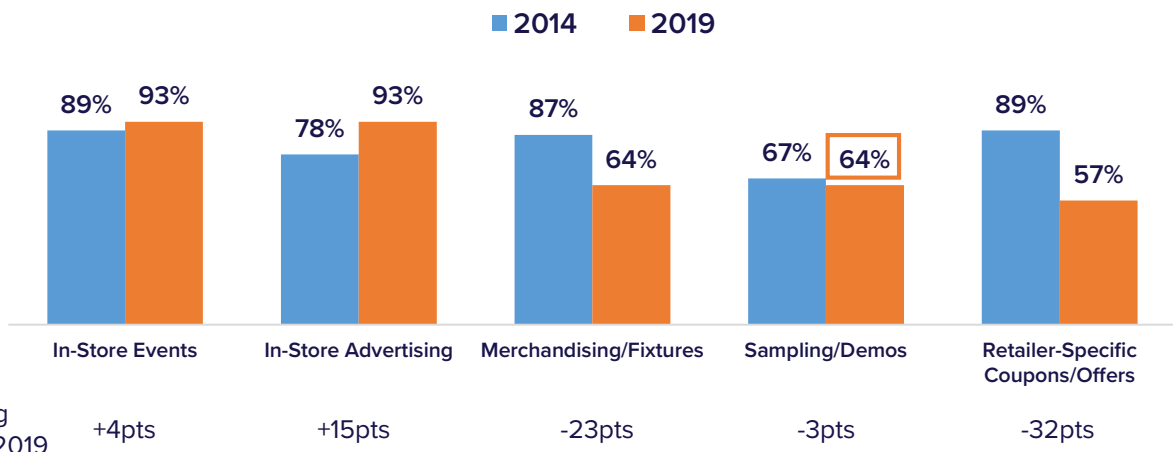
Shopper Marketing: Convert Shoppers Into Buyers

RETAILER PERSPECTIVE:

While Shopper Marketing overall plummeted to 7.7% of spending in 2019, the components of Shopper Marketing have increasingly been driven by retailer-specific coupons/offers.

- Unfortunately, these coupons/offers ranked lowest among retailers in terms of effectiveness in generating sales in 2019.
 - Retailers believe in-store events/advertising to be most effective (93%).

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



Shopper Marketing is increasingly becoming more price oriented with the focus on coupons/offers. Yet, these are deemed least effective by retailers.

“

- Anything offered in-store stimulates impulse buying which works in our sector.
- Manufacturer spending has become more clandestine and less collaborative than in the past.
- Manufacturers are bringing a mass approach and missing the local need. These decisions are centralized and not developed with the local community.

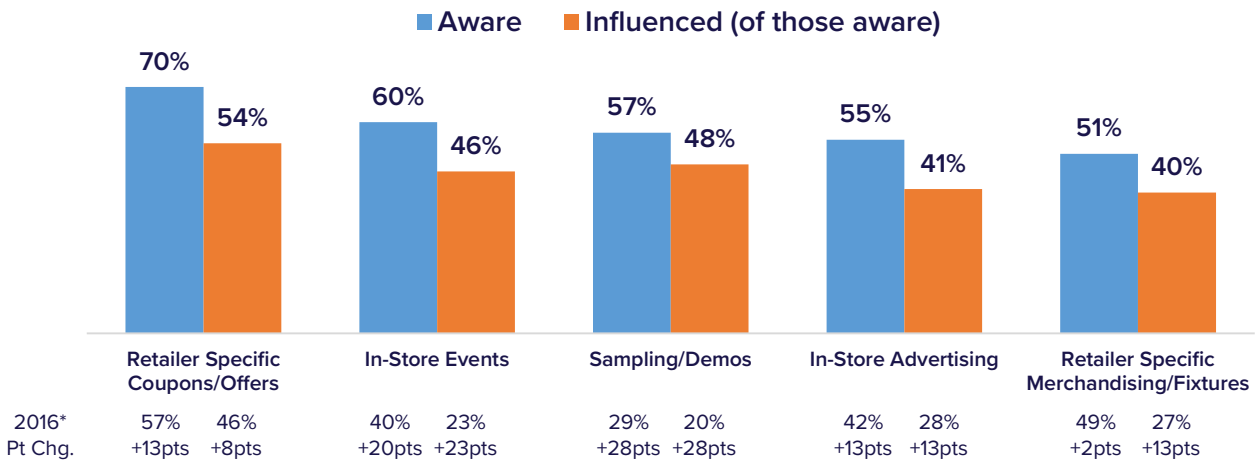
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Shopper Marketing: Convert Shoppers Into Buyers

SHOPPER PERSPECTIVE:

- Shopper Marketing or retailer customization is highly valued by shoppers. Retailer specific coupons/offers, in-store events and sampling/demos were rated highest.
- Overall, Shopper Marketing has lost significant luster but is still perceived as effective among actual shoppers.
 - Some of Shopper Marketing may be shifting to Digital and Trade Promotion.

Shopper – How Effective is Shopper Marketing by Type in Impacting Shopper Awareness/Purchase Decisions? – 2019



Focus on the most impactful areas for customization.

*Shopper study first conducted in 2016

Better Sample
Price Interest Demo Focused
Deal Save
Influence Rewards
Coupons In-store
Try Attention

“

- A customized program gives me an incentive to shop there. Anything with a demo or coupon is something I’m looking for.
- In your face shopper focused programs work. They get your attention.
- Personalization really catches me.

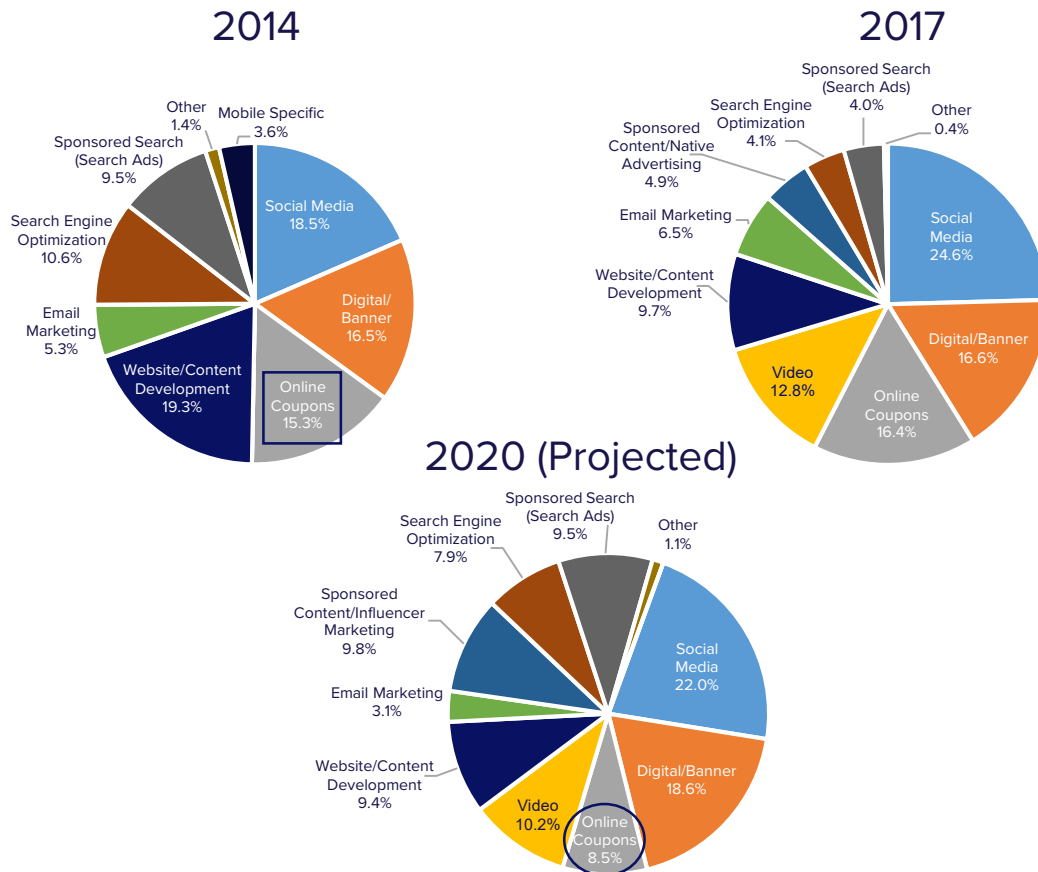
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Digital: The New Traditional

The Digital Marketing trajectory has flattened a bit since its meteoric rise to 2017. However, flattening still means growth of approximately \$2.2 Billion annually.

- The shift within the Digital Marketing budget is less notable. Social media and Digital banner ads remain the largest.
- Online coupons have dipped precipitously from the mid teens to 8%. While this appears in direct contrast with the growth in Shopper Marketing coupons, this may be a function of spending effectiveness/ROI.

Manufacturer – Digital Spending by Vehicle

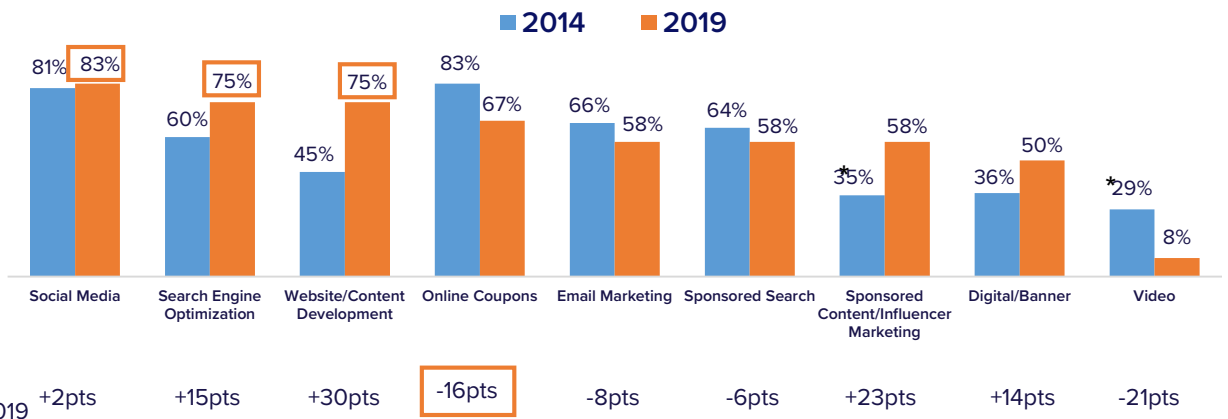


Newer areas such as video have declined while sponsored content/influencer marketing has doubled.

Digital: The New Traditional

RETAILER PERSPECTIVE:

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



Online coupons experienced one of the largest declines in effectiveness according to retailers.

*2016 data (not measured in 2014)

- Retailer ratings have shifted dramatically on many aspects of Digital spending. Social media – the largest bucket – leads at 83% rating effective/very effective.
- The largest gainers were website/content development and sponsored content/influencer marketing. Video fell most precipitously, - 21 points, followed by online coupons, -16 points.

Digital Effectiveness Metrics Retailers Use Frequently

- 1 Click Through Rate
- 2 Impressions
- 3 Online Sales
- 4 ROI
- 5 Brick & Mortar Sales

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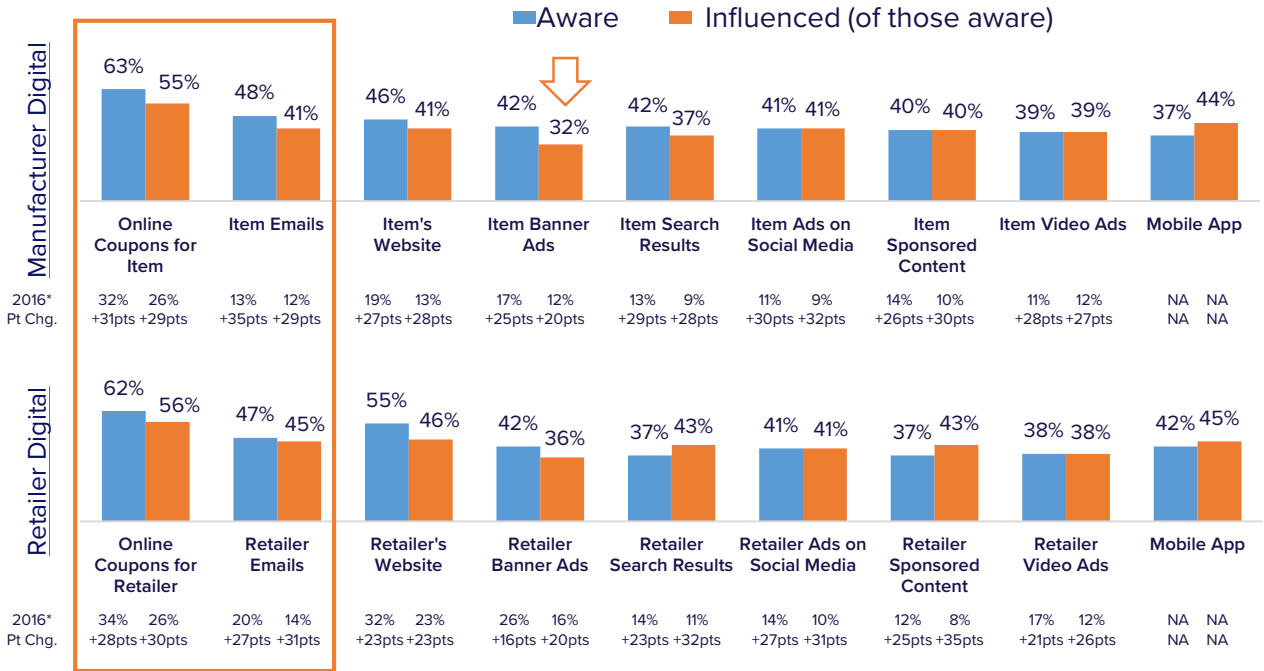
- Many manufacturers are still trying to calculate ROI on Digital spend the same way as display and TPR.
- Manufacturers need to embrace new opportunities with Digital which will be much better positioned as it grows and traditional print declines.
- Manufacturers should use Digital as a rifle shot vs. shotgun approach to executing marketing programs.

”

Digital: The New Traditional

SHOPPER PERSPECTIVE:

Shopper – How Effective is Digital Spending by Type in Impacting Shopper Awareness/Purchase Decisions? – 2019



Digital overall is low in awareness and influence with shoppers...but growing!
 Online Coupons (manufacturer or retailer) are the most powerful in influencing shopper purchase; Banner Ads are the least powerful (but the second largest in the budget).

*Shopper Study first conducted in 2016

- Digital coupons garner the highest awareness and influence among all Digital tactics according to shoppers.
- Influence has exploded across all measured Digital elements for shoppers.

“

- Digital promotions are especially effective when I receive it in an email.
- I love to download coupons from the app straight to my card.
- I like coupons because I will never stop and watch a video.
- If it saves you time and money, it's worth it.
- They really need to capture your attention.

”

COUPONS
 Email Deal App
 Digital Relevant Online
 Informative
 Attention Access
 Easy Social Media

ACTION PLAN

Action Plan: What's Your P/E?

1 Get Your Price/Equity Quotient Right: Quantify the percentage of your budget truly devoted to price reduction vs. brand equity. Evaluate the benefits/trade-offs of getting your price right every day rather than buying your price down through promotion.

- If a significant portion of your trade budget is allocated toward price (primarily through the retailer), would it be more effective and efficient to simply lower the price and focus on quality support and marketing?

2 Evaluate The New Traditional: Digital is becoming the new traditional for marketing, nearly tripling in the past seven years, while Advertising was cut in half. Digital also serves double-duty delivering on Price and Equity.

3 Calculate Your ROI: ROI is difficult to calculate for less tangible activities, but that doesn't abdicate sales/marketing from responsibility. Understanding quantitative inputs for ROI, as well as other key elements – awareness, trial, repeat – are critical to maximizing returns on limited resources.

4 Understand What Works For Manufacturers, Retailers, and Shoppers:

Type	TREND / STATUS		
	Manufacturer Spending	Retailer Effectiveness	Shopper Awareness/Influence
Trade Promotion			
• Price	↑	↑	Highest
• Feature & Display	↓	↑	Middle
Shopper Marketing			
• Overall	↓	↓	Low
• Coupons	↑	↓	Highest
Digital			
• Overall	↑	↑	Lowest
• Coupons	↓	↓	Highest

5 Define the Shopper Mandate: Understand what shoppers are seeking first, and then strive for the trifecta of a manufacturer, retailer and shopper win/win/win.

These are difficult questions. Marketing spending continues to grow, but the shift from equity building to pure price support is significant. What are you paying to buy down everyday price and might it be better to get the price right first? What's your Price/Equity Quotient?