



BELLWETHER REPORT

October 2016

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Overview

This is Hive's first quarterly Bellwether Report on the state of on-pack promotions in the UK FMCG industry. The report aims to uncover details of how brands are running on-pack promotions where it counts – on the shelves, along the aisles, in the supermarkets. The report looks at the trends across the industry, and offers detailed insight and analysis into its findings. By conducting research quarterly Hive aims to understand how the industry is changing and whether this reflects trends or technology advances.

Introduction

This is the first quarterly report looking at the state of on-pack promotions in supermarkets. On-pack promotion is an area that has changed completely in the past few years. Alongside more traditional cut-out coupons and receipt-based mechanisms, digitally-enabled promotions that build direct consumer relationships have been developed and employed.

The rise of a new breed of on-pack promotions comes against a back-drop of ever-tightening margins in retail and the gradual phasing-out of multi-buy offers. Under consumer pressure, confusing buy-one-get-one-free type offers are being replaced with everyday low prices, so in the past where a brand could drive sales using a multi-buy promotion, they now have to find new methods to do so.

This report looks at what the brands are doing in response. We are in an everyday low price era and the beginnings of brands integrating on-pack with digital promotions by giving every piece of packaging an identity. The changing nature of on-pack promotions will be tracked on a quarterly basis at this important time.

To address the challenges faced in the retail sector, brands have sought to change their marketing strategies by using promotional activity other than price to drive sales.

Being reliant upon supermarkets to provide information on who purchased their products meant that information was potentially hard to come by and costly. Brand-initiated market research was even more financially draining and time consuming, but with the information being vital to guide marketing, brands were looking for new ways of gathering information, and on-pack promotions appeared to be the solution.

Sales is the key driver

Increasing sales is the key driver for using promotions and in order to do this, brands must have a robust proof of purchase mechanism. As we will see, proof of purchase is now a fundamental part of on-pack promotions.

The aim of this report is ultimately to understand how FMCG brands are using on pack promotions as part of their promotional mix, what types of promotions they are running and trends across the industry. We will see the importance of promotions on alcohol, the popularity of the 'win' mechanic, and the use of proof of purchase to enhance promotions' sales effectiveness and usefulness. Subsequent reports will analyse changes in the industry, both seasonal and yearly, and how these changes reflect trends and technological advances.

Methodology

The survey was carried out by researchers in the course of one day. Three superstore-sized supermarkets in London were surveyed: Asda (Clapham Junction), Sainsbury's (Wandsworth), and Tesco (Streatham).

Starting at one end the aisles were methodically checked for on-pack promotions. Each item of promotional packaging was photographed; pertinent data was collected.

The research was carried out in a methodical, precise and repeatable way, allowing for reports to be compiled every quarter.

Why Bellwether?

A bellwether is someone or something that leads. It refers to the lead sheep in a flock, it would have a bell around its neck and in Middle English, 'wether' refers to a male sheep, hence bellwether.

This report is a state of the industry report for on-pack promotions, an area which Hive with their Hive-codes are a leader.

Findings

Standing out

While conducting our research it was clear which products had the most promotions. Alcoholic Drinks made up nearly 30% of in-store, on-pack promotions, while breakfast cereals made up 13%. Promotions elsewhere were not so concentrated, leading us to question exactly why alcohol and breakfast cereals feature so many on-pack promotions.

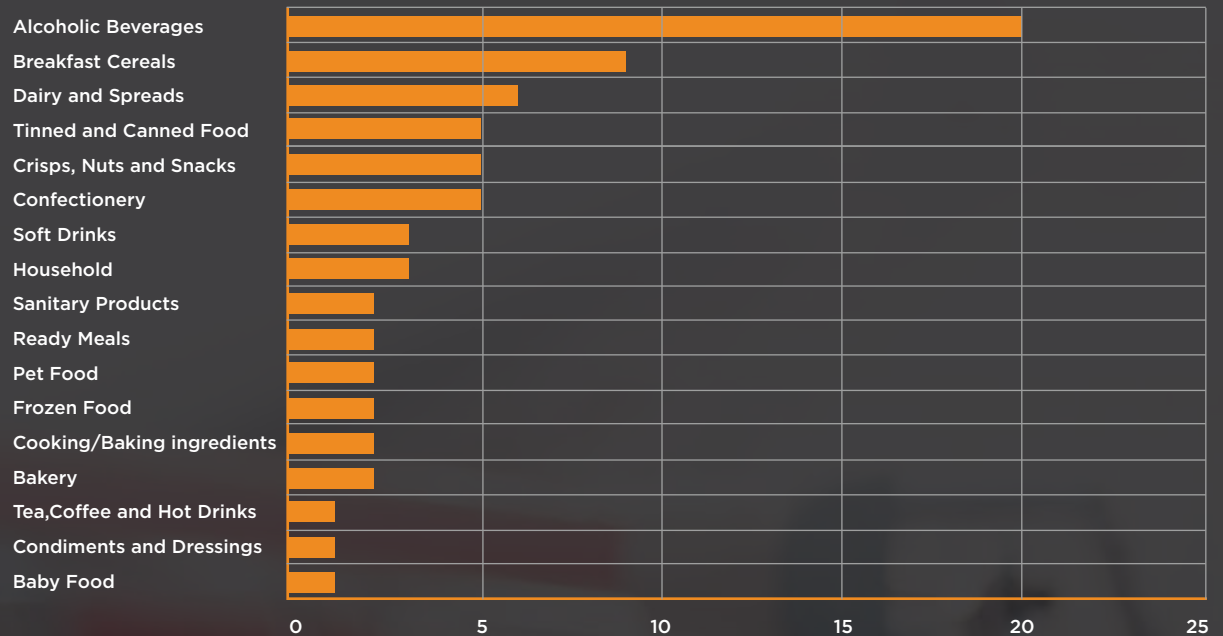
The answer is that promotions help individual products stand out. Breakfast cereals often have their own dedicated aisle, with similar brands offering a large number of similar products. Large packaging gives a lot of space for promotions to be communicated, creating eye-catching cereal box designs. Alcoholic drinks, on the other hand, are usually situated at the back of the store in their own multi-aisle section, with hundreds of different brands of wine, beer, spirits and cider being sold. How does the consumer know which product to buy when presented with overwhelming choice?

A tag on the neck of a wine bottle with the word 'win' written in large lettering or an enticing offer on the front of a cereal box, for example, are ways to drive sales in the face of significant competition.

Manufacturers of alcoholic drinks also make good use of unique codes, with 55% of promotional packaging in the category using this mechanic.

Hive research has shown that the use of unique codes helps to increase sales by an average of 8%, and this could make all the difference when combined with a well-targeted campaign.

Promotions By Category



No purchase – no point

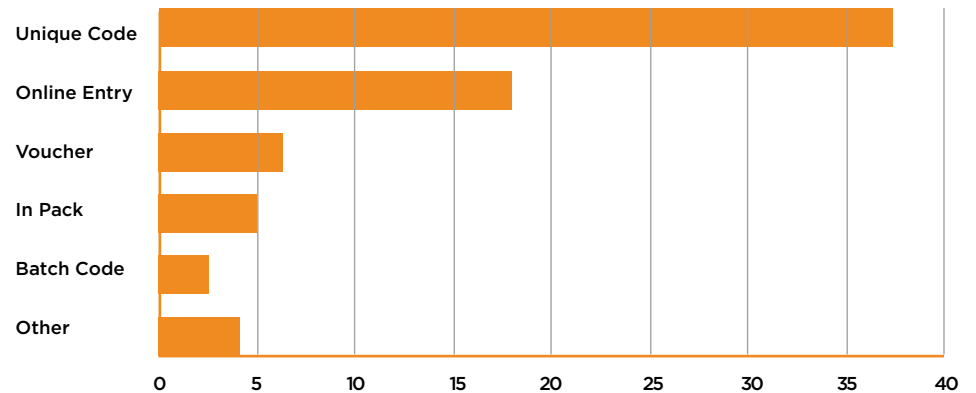
Since British law changed in 2007 to allow companies and manufacturers to remove No Purchase Necessary (NPN) routes into their competitions, promotions have largely abandoned the practice. There is one exception: Promotions running in Northern Ireland still require an NPN route for all competitions as the British law was never enacted there, but it is an anomaly in this one region.

Out of the 71 individual promotions surveyed only nine did not require purchase. This is hardly surprising as NPN promotions do not provide a sales uplift. Running a purchase necessary promotion with unique-enabled codes are far more worthwhile in this regard.

Purchase necessary promotions provide a direct, first-hand link between manufacturer and consumer, and a unique code provides added benefits. Hive codes enable manufacturers to get important information into their consumer bases, such as where they live, their age, and how much of certain products they are buying. This allows companies to create precisely targeted promotions that deliver added value that is relevant to their consumers, providing benefits further down the road in terms of information collected and loyalty. It also demonstrates that unique code enabled promotions are far more cost-effective than is often presumed.

It is no wonder, then, that of the promotions surveyed that required purchase 60% were unique code enabled.

Purchase Validation Mechanisms



To win or reward?

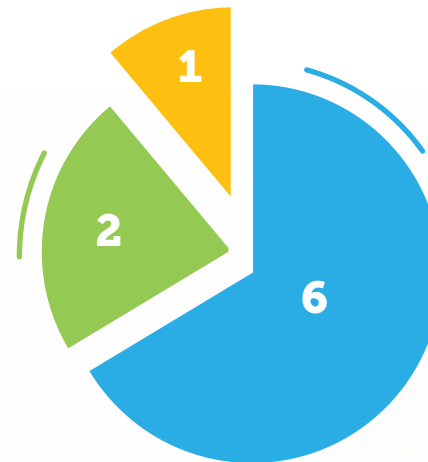
Out of the 71 promotions surveyed, 54 were of a 'win' type and 17 were of a 'reward' type. These different types of promotional schemes have different benefits. The 'win' type of mechanic typically costs less for the manufacturer to run because there are usually only a handful of prizes versus a great number of packs.

However, consumer value and sales uplift tends to be lower if the chance of winning is very low. The 'reward' type, meanwhile, encourages brand loyalty and often requires multiple purchases that drive sales, but only if the rewards are valued by the consumers.

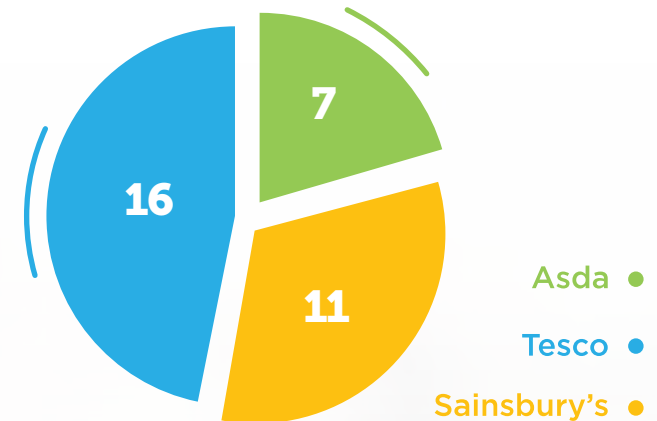
Advantage alcohol

While carrying out our research there was a suspicion that Tesco featured more alcohol promotions than elsewhere, and the data supports this. With 16 promotions on alcoholic drinks, Tesco had almost the same amount that Sainsbury's and Asda had combined. In regards to wine promotions, Tesco had double that of the other supermarkets. Not only that, but three of the six wine promotions were featured on a shelf next to the supermarket's entrance, showing the emphasis Tesco is putting on their wine sales.

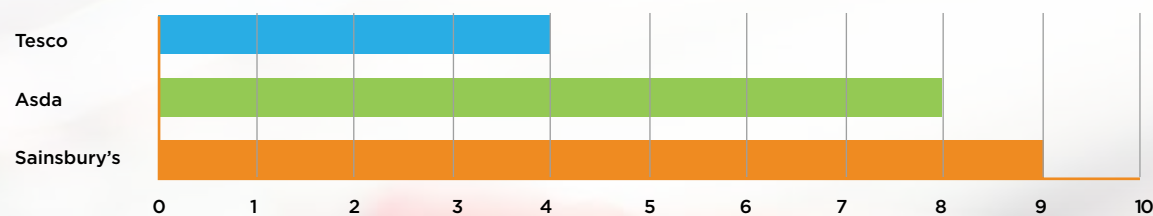
Wine promotions



Alcohol promotions



Breakfast cereal promotions



Seriously cereal

Another observation is that Sainsbury's had all of the observed breakfast cereal promotions on their shelves. Asda had eight of these promotions, whereas Tesco only had four.

Tick Tock

The length of time left on the promotions is also worthy of note. On average the promotions had 93 days left to run, with ten having already finished and the longest being Lindemans wines which had an end date of the 31st August 2017. We will be able to compare this data against the data collected at the next quarterly survey to work out how the promotional landscape is changing.

We will also be able to track promotions each quarter, showing the new promotions in the market and how these have changed, with different types and categories being noted. Short-term promotions work well around sporting or media events, such as a sporting tournament or the release of a new film or TV show. We believe these types of short-term promotions are becoming more prevalent.

Perfecting placement

The placement of promotions and, where applicable, their codes varies depending on the product.

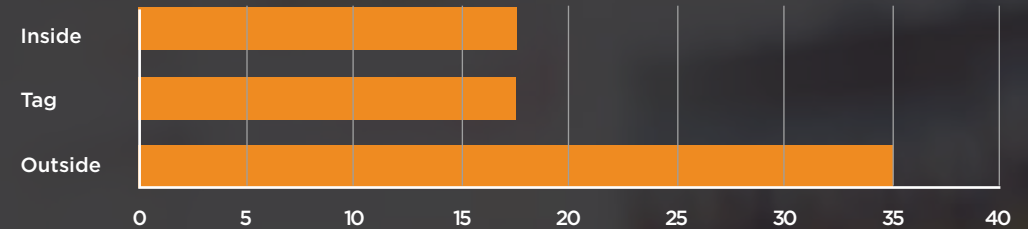
Wine bottles, for instance, often featured tags on their necks as opposed to a change in the design of their packaging, but cereals used their large packs to display promotions.

Neck tags are good for catching consumers' attention, are relatively cheap to produce and help bottles stand out. They are also rapidly deployable, increasing the promotion's speed to market as opposed to changing the main labels. It is no surprise therefore, that this was a common mechanism to display promotions on bottles.

Placement of Promotions

The majority of products featured all of the promotional material on the outside of their packaging, including codes where applicable.

In total, 53 products featured promotions placed entirely on the outside of their packages, with 18 of these being on some form of tag or sticker. The 18 remaining promotions featured a code or instructions partly on the inside of the packaging.



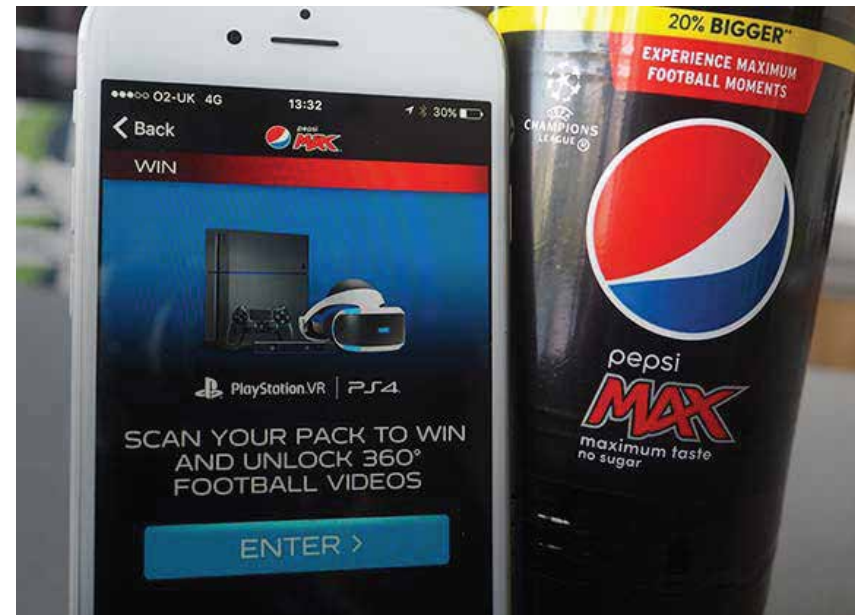
Online advantages?

18 of the promotions surveyed used an online entry form as the primary method of entry. The standard form asks for your name, email and which part of the country you are from, which allows the brand to work out where the most promotions/products are being sold.

Other forms ask for additional details, such as how old your children are (Persil), which of the manufacturer's products you prefer (Hunger Breaks), or require some form of social media entry (Lindeman's Wines). This gathering of information can better inform manufacturers of their consumer base.

The issue with the information gathering forms, however, is that this is not necessarily an accurate process. Seven of the 18 online-entry only promotions did not require purchase, thus allowing anyone to enter. In instances where this is the case, questions such as "Which Hunger Breaks meal most satisfies your growling belly?" become less useful. Similarly, Trivento Wines asked where bottles were purchased, which is not so useful either; only proof of purchase will make this relevant.

Another form of entry is through a mobile application. Pepsi operate this method of entry for their Playstation competition promotion, creating a more interactive experience. The downside is that proof of purchase is not robust, anyone can enter the competition just by downloading the app.



Socially adept

On occasions, online-entry promotions will require entry via social media. Facebook is a popular platform for this, with promotions such as Weetabuddies and the Lindeman's Wines promotions using this method.

The former asks for a picture of a decorated Weetabix to be uploaded to the Weetabix page with a description and the entrant's details for competition entry, whereas the latter asks for a description of what makes the entrant happy in ten words or less.



Heinz offer a similar promotion for their Can Song promotion, but this requires a video upload and the mastery of a short song that can prove very long winded and time consuming, so numbers of entries will be limited.

On pack promotions are used to drive sales by linking participation in the promotion to purchase. The Facebook promotions did not use a robust proof of purchase mechanism, even though it is possible to integrate unique codes with Facebook promotions.

Responding to pricing pressures with digitally enabled promotions

By Jonathan Jackson, CEO of Hive

As we saw with the recent stand-off between Tesco and Unilever, aka “the great Marmite war”, price pressures are now higher than ever. Supermarkets want to maintain their everyday low prices, having previously cut back on multi-buy offers, but faced with a plunging pound and increasing commodity costs, brands are being forced to increase wholesale prices to maintain their margins. Therefore, despite protestations, prices are increasing in supermarkets.

To maintain sales figures, even in times of increasing prices, brands are turning to innovative digitally-coded promotions to renew their sales strategies, whether that strategy is brand differentiation, building a retailer relationship or standing out in store.

The question is, how do you keep consumers buying your products, even at a higher price?

One answer is to use digitally enabled codes to offer consumers something of value that will cause them to choose your brand versus a competitor, even if the price is higher.

On-pack promotions are an important part of the promotional mix and do not have to be run as one-offs. Arla foods, for instance, runs an always-on code promotion with their brand Anchor Butter where unique codes can be entered on a website in order to redeem offers or to enter competitions. With new offers and competitions every month, and promotions that are communicated digitally via email or social media, consumers repeat buy the brand. By using a robust proof of purchase mechanism (unique codes), a sales uplift is guaranteed.

An always-on promotion is much more cost effective, the packaging does not need to change, the additional marketing effort is minimised and digital applications (websites or apps) do not have to be recreated from scratch each time.

What brands get from digitally enabled packaging

Sales uplift first and foremost is still the core driver for promotions but for marketers and product managers, the additional benefits from digitally-enabled packs are undeniable. As soon as a code is registered, the brand knows about it, and with the additional information entered digitally, the brand knows more than they ever knew before about their consumer, such as which supermarket they shopped in, where they live and potentially how old they are. They can build an email marketing database that reduces future marketing cost and increase the success of further promotions.

Unique codes offer instant validation and verification compared with solutions such as receipt scanning. Better yet, new technology enables brands to put codes on packs at a substantially lower cost and more efficiently, saving up to 80% of code printing costs. Also, brands do not have to worry about the expense of printing special promotional packs.

It is this marriage of technology and simplicity that will help brands connect with consumers in unprecedented ways, when and how they want. Winning brands will act now and introduce unique codes to their packaging, thus building a strategic advantage that will see them far ahead of the competition.

Looking forwards

As we look forward to the Christmas period, overall on-pack promotions are expected to be scaled back, with a few exceptions.

Coca-Cola's famous 'holidays are coming' campaign last year featured a Christmas Hamper promotion and has been a staple of Christmas promotions for 20 years. Alcoholic drinks brands are expected to ramp up their promotions during the festive period. Last year for instance, Famous Grouse launched an innovative on-pack promotion involving personalised packaging.

After Christmas, and once the Boxing Day sales are done and dusted, the expectation is that promotions will increase again. The question is, will promotions in the first few weeks after Christmas focus on the home comforts of winter or a guilt-free, resolution-abiding January?