

Using Visualization Techniques to Control Discounts & Allowances

A typical DSD beverage company spends 30% of gross sales, literally millions of dollars, on deals. This article is about answering that fundamental question: “When I deal, do I build the brand?... Make more money?... Both?... Neither? It is also about what you might do to promote more efficiently, i.e., selling more cases for the dollars or taking more margin for the cases.

John Wanamaker, the famous Philadelphia retailer, is credited with the phrase: “half the money I spend on advertising is wasted, but which half?” Price discounting works a lot like advertising. Half the customer locations do not give you a fair return on your promotion, in terms of volume and profit. Here’s a way you can change that percentage in your favor:

The big problem with information today is that there is too much of it. So, the first thing you’ll need is to organize your sales data according to the way you think about your marketplace: products by brand and package, customers by channel, sales responsibility, territory, etc.

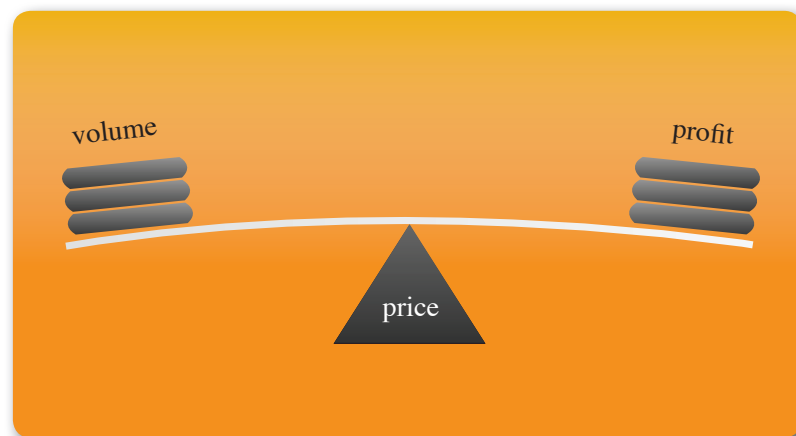
Now that you’ve got it organized, zero in on the customers and products where you spend the most on promotions, say, “supermarkets and 12 packs”.

Do the “PQ” (price quantity comparison)

Here’s a way to test the key assumption that lower prices generate higher volumes: Plot your supermarket customers who purchase 12 pack in a scatter gram, with volume performance on the horizontal axis and net pricing (revenue / unit sales) for a package size on the vertical. Theoretically, customers should plot neatly along an inverted PQ curve. However, you’ll see a few “outliers”: low volume customers who paid low prices. These are your candidates for margin improvement.

Learn “why”

Let’s use a different visualization technique to dig into the history of an underperforming customer, in this case a supermarket that doesn’t turn higher volumes in return for you discounts on 12 packs.



This step requires a “longitudinal” chart that correlates 12 pack average net pricing to volume performance over time. Let’s take a look at a 26

week period. (the typical supermarket works on a weekly advertising / store change cycle). Draw a vertical scale representing volume on the left side and your average net price on the right. Mark two data points for each week: one for net price and one for volume (use a different color for each type of data).

Now just observe the effects of pricing on volume. You’ll see here the effects of price, deal frequency and duration on volume (if you also track margin, you will also see the effect of pricing on profitability). You will see that price will indeed spike volume but, in weeks following, volume will be below normal. It is the valley after the peak that drives underperformance.

Work the levers you have

Not all beverage companies have a lot of control over their pricing, but they do have other tools, such as stocking and service levels, choice of brand mix, alternative packaging, etc. Stock management is itself a great way to improve margins over time. The old cliché, “pile it high and watch it fly” may be true, but careful matching of store inventory to deal volume throughput is more likely to deliver profits after the deal and, as well, may reduce “bring back” costs.

Another old cliché, “there’s gold in your data” is true. All you need to do is mine it.

About the Author:

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