



Overview

Less than a year into incorporating NielsenIQ's Price and Promotion Analytics into its strategies, a major player in Asia Pacific's pet food market experienced an uplift in incremental sales through discount of 12% on average. Shoppers were also less price sensitive to regular price increases on their products, while showing more responsiveness to discounts.

Not only did our client enjoy a higher return on investment in trade spend, they also reduced wastage by removing promotions that were not driving both significant sales uplift and incrementality. By doing so, they have been able to increase their share of wallet and grow the category, and at the same time discourage shopper behaviours that had a long-term negative impact on their bottom line, such as panty loading, store switching, and portfolio cannibalization.

Price & Promotion Analytics

Boosting ROI by 12% on all price levers

How a leading pet food manufacturer in APAC realise ROI in incremental sales and reduce millions of dollars in wastage on promotional sales.

Key benefits

- ROI in incremental sales through discount

14.3%

Dog food category

9.9%

Cat food category

- 7.5% less sensitive to regular price increases
- 5.5% more responsive to discounts
- US\$ 7.6 million reduction in sales wastage on promotion





Pricing: The best defense is a good offense

Their story

As a leading company in pet food across Asia Pacific and with a massive global footprint, our client's portfolio is complex; it covers a variety of brands with different benefits, catering to numerous breeds though varying pack sizes and formats (wet and dry).

The rapid growth of the pet food category and the low barriers to entry to production have been attracting new players over the years. These new players can now be distributed in old and new retail channels showing strong presence in both online and brick-and-mortar stores.

This new environment has led to an increase in promo reliance and a genuine risk of category value erosion over time if decisions aren't based on facts and solid data.

Collaborating with the client

As competition and market conditions are changing abruptly, players in the pet food arena need to swiftly adapt given their risks in both rate of sales and profitability.

It is against this fast-paced backdrop that NielsenIQ was invited to provide clarity and guidance on the highly critical issue of pricing through its expertise in analytics, which has helped manufacturers and retailers in more than 1,500 pricing optimisation projects yearly.



Using data-driven insights to win

- Our common goals**
- Provide clarity on how to play the portfolio at brand/item level according to shoppers' reactions to regular price changes and promotions, taking into consideration competition so our client can create a compelling story for his main customer, the retailer.
 - Reduce the impact of price inflation over time in their portfolio and become more protected when taking price increases.
 - Increase the incrementality of the promotions across the whole category meanwhile guaranteeing the least impact on the volume and, for their portfolio, the maximum result on profitability utilizing optimal discounted prices.



Challenge 1: Our client needed to justify the role that an item plays in the portfolio

Determining the best strategies across the portfolio

Client needs support in strategizing the role (*Hi-Lo, Hi-No, EDLP etc.) that every item in their complex portfolio should play and foremost, how to make recommendations to their customers through a fact-based and streamlined approach.

Our client faced pressure from a key retailer to move a top-selling item from Hi-Lo to EDLP strategy. As an incentive to move away from discounts, the retailer is offering our client more shelf space for this particular product.

Overall, there was a need from our client's revenue management team to quantify this move, while the marketing team was concerned with the perception of the product's value with such a price decrease over time.

Alternatives from NIQ

To avoid costly mistakes, NielsenIQ recommends the following actionable alternatives to the client:

- Top-seller 7.5 kg to continue to do Hi-Lo
- Promoted price should be between \$17.50 to \$15.00 to make sense in the P&L
- Recommendation of other items to be placed under EDLP

**Hi-Lo (High regular price and low promoted price), Hi-No (High regular price and no promotion), EDLP (Everyday Low Price)*

NielsenIQ recommendation: Top seller should continue with Hi-Lo

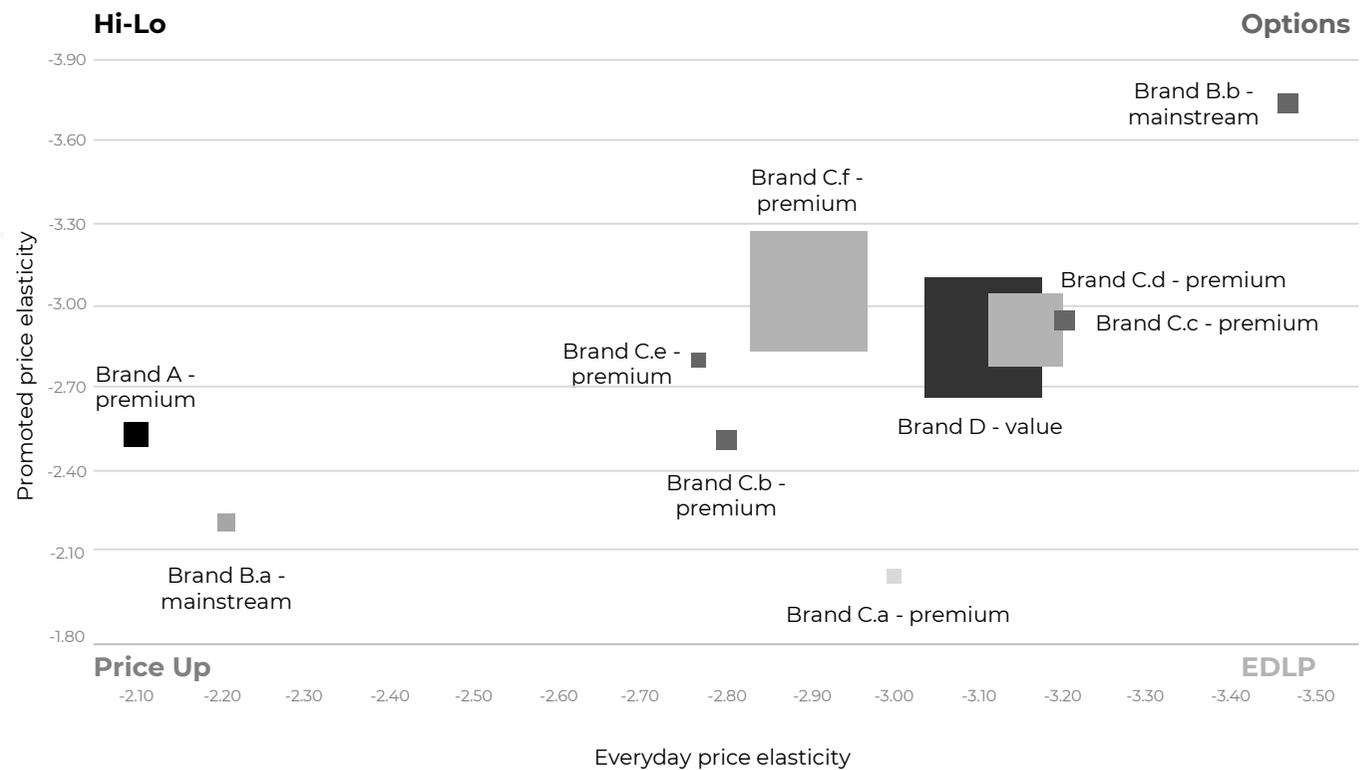
Rationale backed by data and analysis

Analytics data and in-depth analysis demonstrated that through discounts, the top seller was bringing significant volume uplift and incremental volume for the category with the least cannibalization.

On the flip side, taking an EDLP approach was less attractive even in the face of additional benefits (more share of the shelf) given by the leading retailer because the additional baseline volume obtained using EDLP would not offset the massive reduction in sales by curbing promotions.

Restraining promotions would not only lead to less incremental volume through promotions to both our client and the leading retailer, but also erode market share over time.

Item pricing strategy



*Hi-Lo (High regular price and low promoted price), Hi-No (High regular price and no promotion), EDLP (Everyday Low Price)

Validating our guidance with NielsenIQ Consumer Panel Data

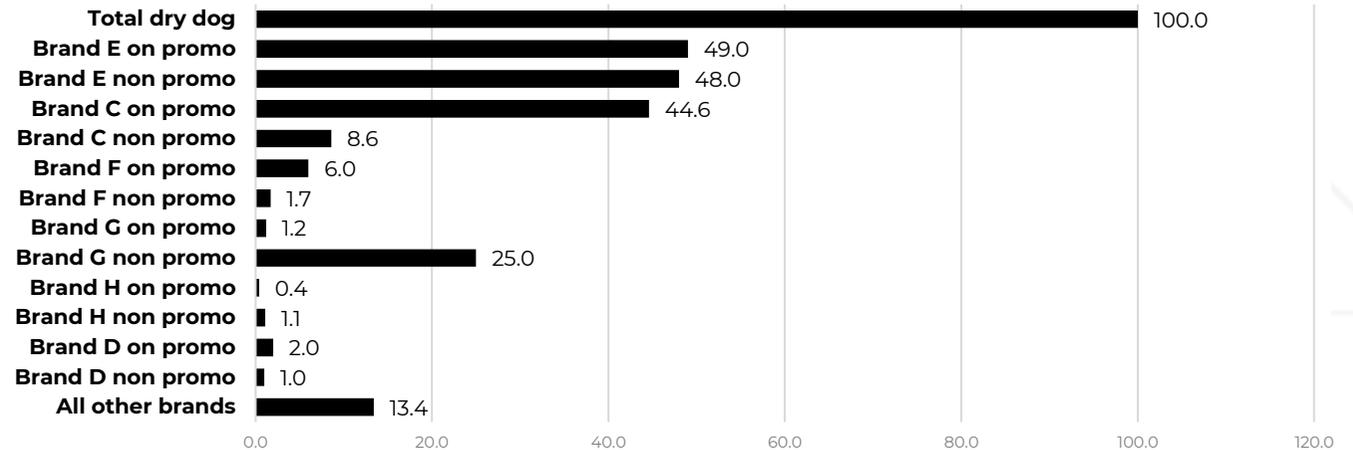
NielsenIQ's wide breadth of products helps validate recommendations

Through NielsenIQ Consumer Panel data analysis, we were able to identify that 84% of the base of the brand's households were heavily loyal due to the discount offered among other reasons.

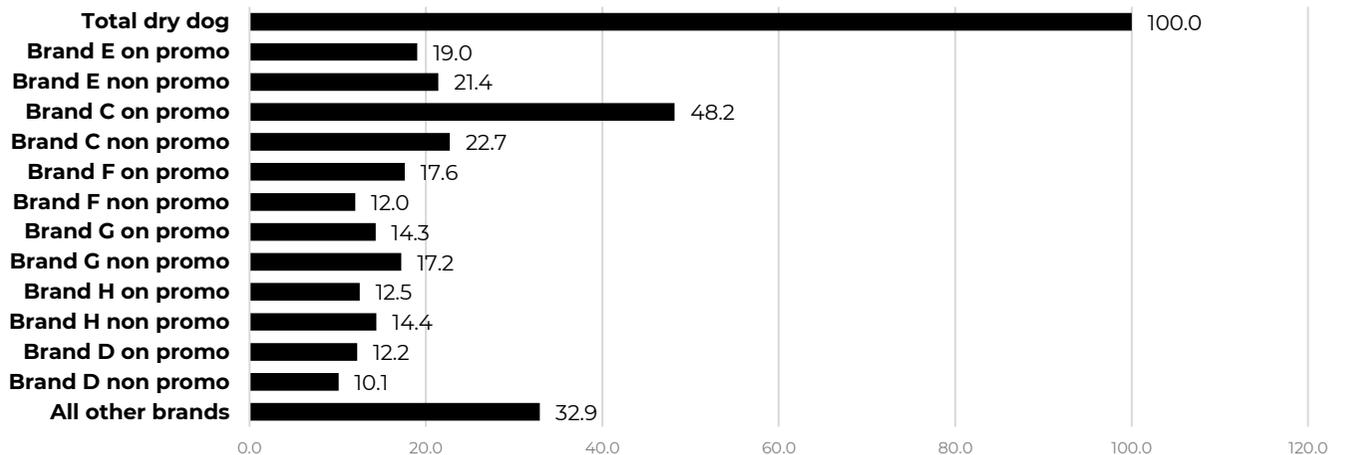
In other words, the penetration in the households of the brand could be at stake if the top-seller item moved to EDLP. Shoppers who were quite reliant on this particular promotion could vanish overnight if the discounts ceased.

How loyal are product buyers within the category

Volume market share



Loyalty % (volume)



We determined the optimal price range to protect margins

Taking the guesswork from price planning

To complete the puzzle, the NielsenIQ Analytics team examined if the promoted price executed were profitable.

Merging coefficients coming out of our model and the financial inputs of the client, we uncovered that the promoted price should be between 17.50 (maximum profit) and 15.00 (optimal volume with flat profitability) to make sense in the P&L.

Profit curves variables



Our recommendation was solidified by examining volume incrementality

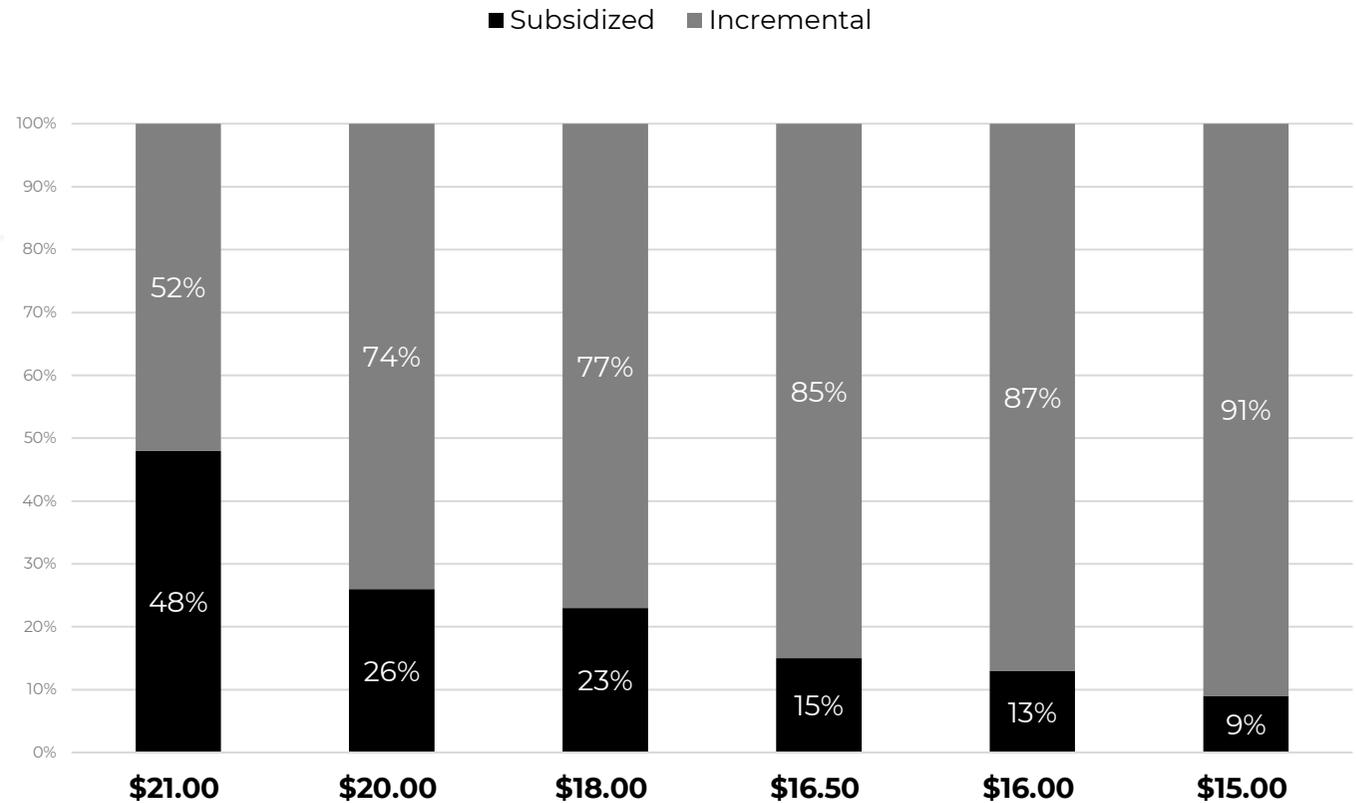
In-depth price analysis to see volume growth

Price analysis was also overlapped with the volume incrementality by price point.

This demonstrated that from under \$15, the incremental volume obtained was marginal. This further reinforced the promoted price range recommendation.

Brand C.f pet food increases incrementality as promotional price falls

Using promotional price ceilings (includes 0.5c under) to show shift in incrementality as price falls



NielsenIQ: Overuse of promotions has led to greater promo reliance and increased price elasticity

NielsenIQ uncovered that even though our client had the leading brands, none of them is a price-setter in the pet food category.

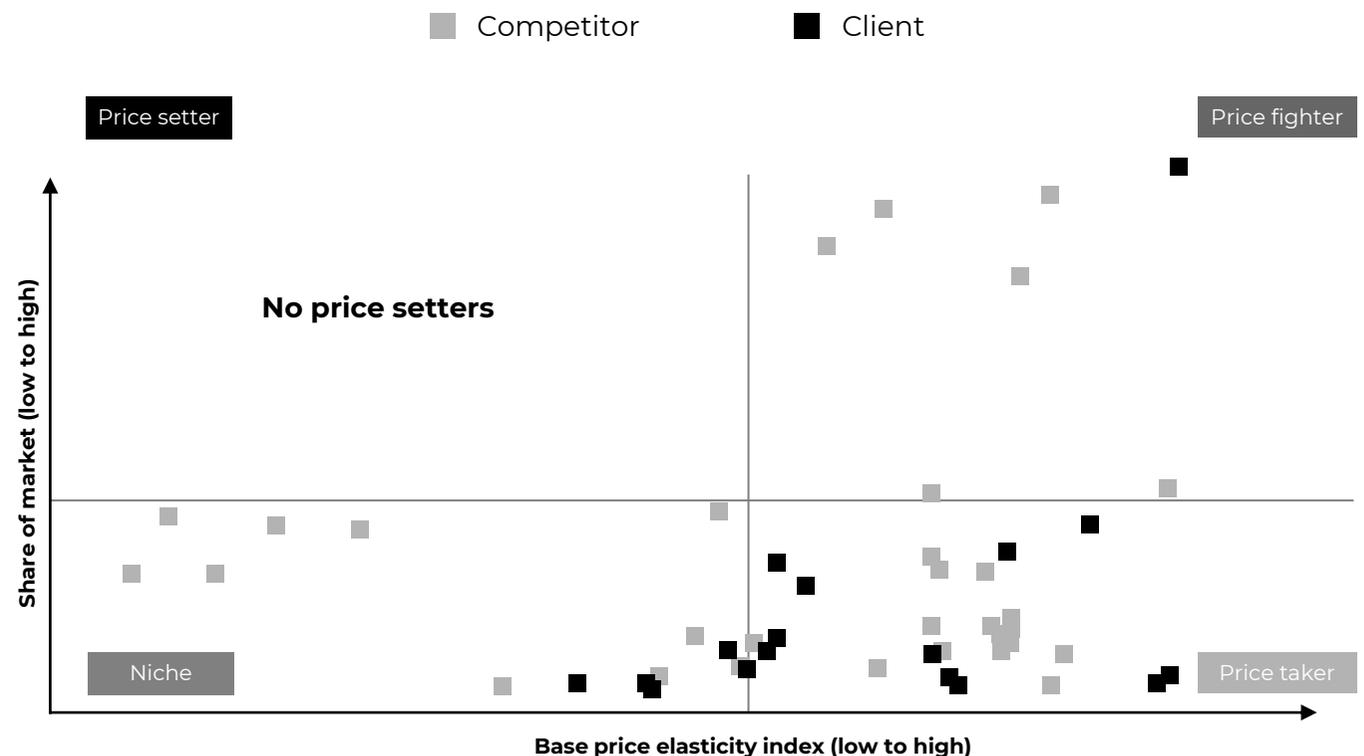
Leading brands usually have the price power and are capable of also leading the price dynamic with the least impact on volume among the competitive set. This was not the case for the client because all our client's brands have been heavily promoted without distinction.

Discounts above 50% were happening in more than half of the weeks of the year. This dynamic profoundly changed the perception of shoppers who over time became more reliant on promotions and more elastic to regular price changes.

The reality is that when we look at the major factors that drive the price elasticity of brands/items, frequent deep discounts tend to increase the regular price elasticity.

Absence of the price setters...

Categories usually have a brand which can lead the pricing moves



We proposed an alternative product for EDLP strategy

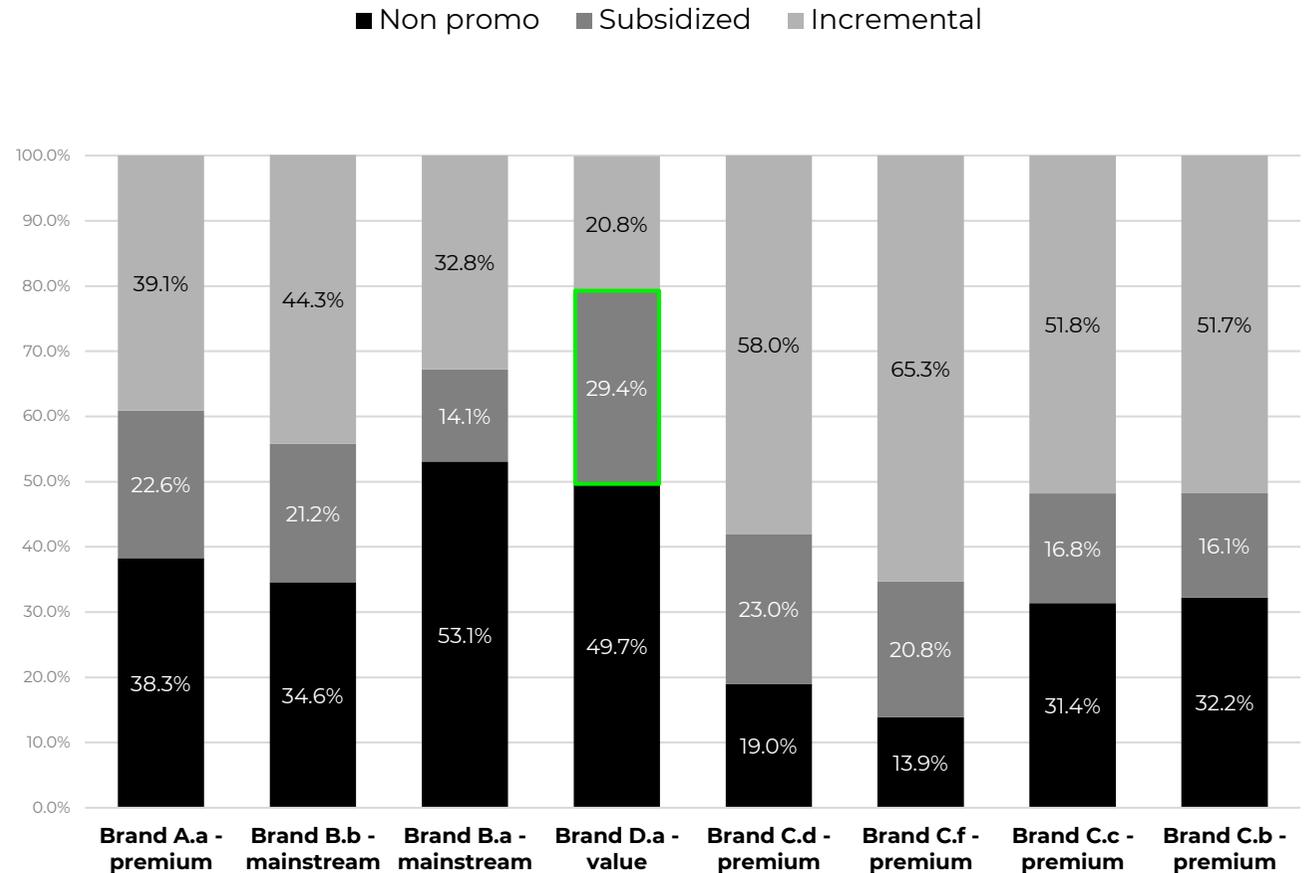
Test an alternative against NielsenIQ criteria

Alternatively, NielsenIQ Analytics suggested our client pick another brand for the EDLP strategy proposed by the retailer. The top-seller item of this brand matched all criteria:

- Low level of incremental volume through discount
- Regular price decrease would more than offset the elimination of promotions in sales value due to the substantial increase in baseline volume
- 57% of the base of brand's shoppers were reliant on promo, versus 84% of the top-sellers brand in their portfolio
- High absolute penetration and high frequency, together with high regular price elasticity, are the major three factors for success when moving to an EDLP strategy

Brand D: High level of subsidy

% sales on promotion



The retailer accepted our client's analysis and the alternative product was deployed using the EDLP strategy

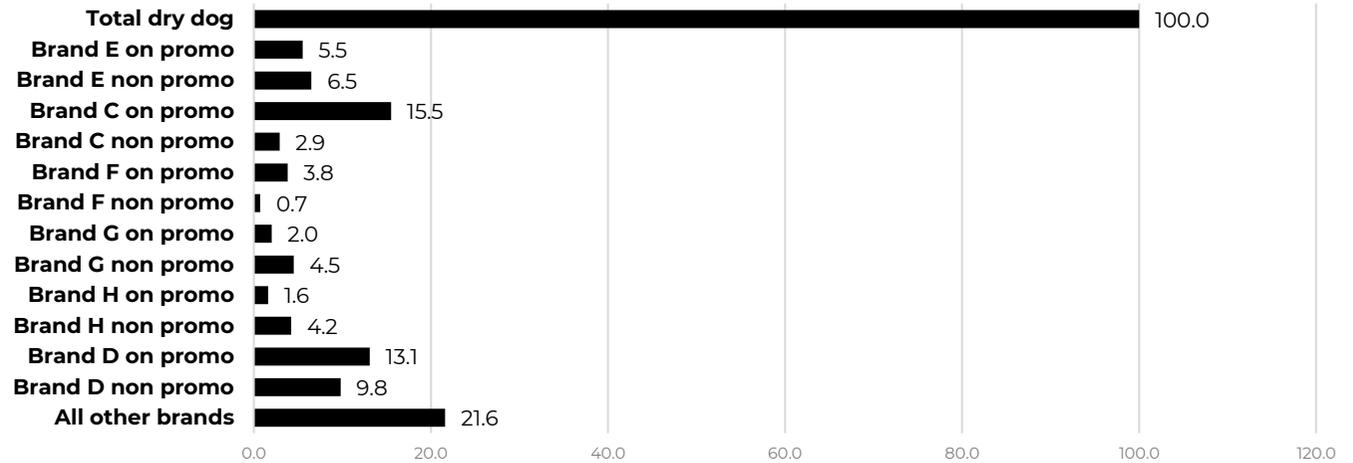
Present a compelling argument based from sound analytics

As a result, the client was able to demonstrate to the retailer that not only that the change in strategy proposed for the top-seller from Hi-Lo to EDLP would cause dramatic problems but they also managed to provide a viable alternative through another brand in the portfolio.

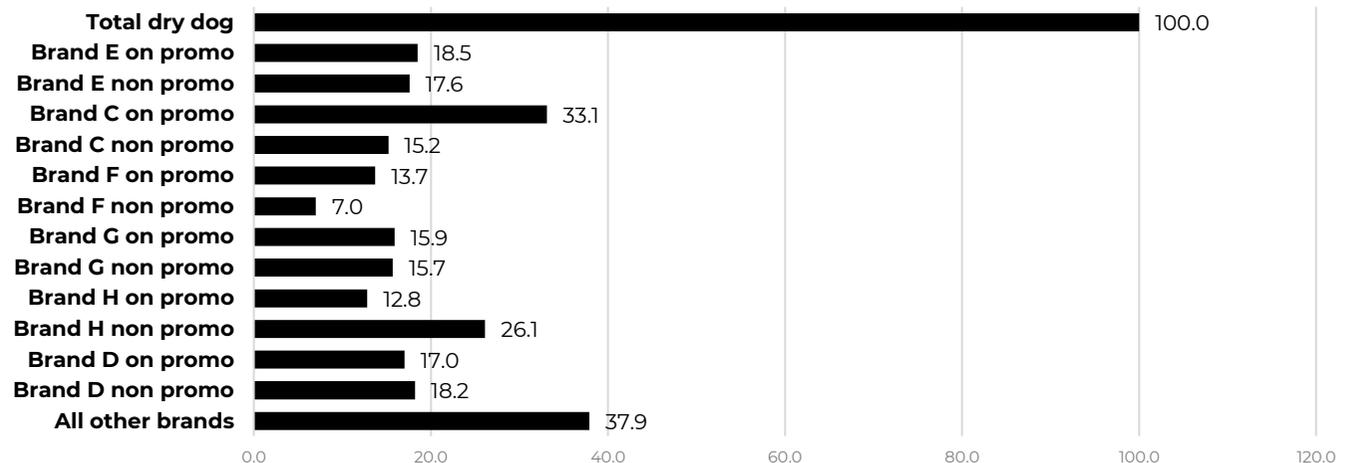
The outcome was outstandingly positive and the retailer agreed with the recommendation for the top-seller since there was a potential risk to harm the sales of the category as a whole in their stores.

How loyal are product buyers within the category

Volume market share



Loyalty % (volume)





Challenge 2: Reducing the impact of price inflation in the portfolio

Why asking the right questions is important

Price increase is considered as an unacceptable option for some manufacturers' sales teams and retailers as well. This is especially true if the category sits in a very competitive environment due to a high number of players and store formats (regular brick-and-mortar and specialty channels). That's exactly the case of the categories of our clients.

The wrong move in the price points may represent a dramatic loss in terms of sales by widening the price gap of items versus competitor's similar offerings. In reality, price increases have become an art that takes into account: in-depth fact-based arguments, education of the sales teams and customers through meticulous communication and team collaboration with Finance, Revenue Management, and Marketing.

NielsenIQ was thrilled to help our client with this important matter. Together with the client, it was possible to ask profound questions regarding the difficulties of passing a price increase ahead. Fortunately, we obtained answers that, at a first sight, could remain hidden.

Answers from NielsenIQ

- Overuse of promotions leads to greater reliance on promotions and more sensitivity to regular price changes over time
- Picking the right items is a must to limit promotions and curb shopper reliance on promos

Identify Hi-No products and limit promotions to curb shopper promo reliance

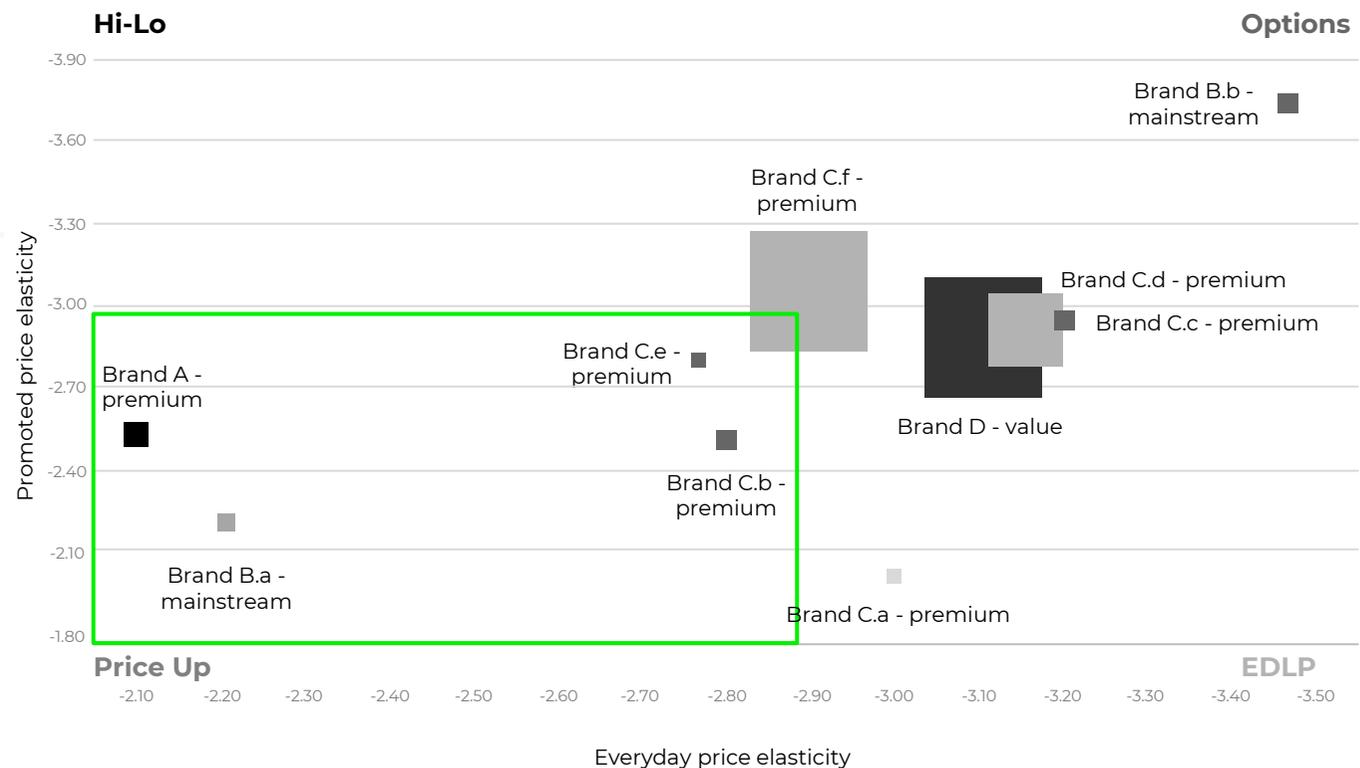
The portfolio of the client allowed this alternative. NielsenIQ uncovered that there were several items with unique features that shoppers had a lower reaction to discounts. Therefore, the promotion restrictions should target these items first.

Moreover, those items also offered the opportunity for higher regular price increases compared to the remaining ones in the client's portfolio. In an imminent scenario of price increase, they should be top of mind.

As a result of targeting the right items to curb promotions, both dog food and cat food ranges (L4L analysis) became less reliant on regular price after eight months.

The analysis demonstrated that now a 10% price increase would result in a 19% and 18% baseline volume decrease (next 12 months) for cat food and dog food respectively versus 20% and, 21% before the promotions were reduced.

Item pricing strategy



*Hi-Lo (High regular price and low promoted price), Hi-No (High regular price and no promotion), EDLP (Everyday Low Price)

Challenge 3: Driving incrementality while ensuring least impact on volume

By studying four key metrics - incremental volume, volume uplift, retail margins and, cannibalisation - NielsenIQ and the client identified the items in the whole category that would bring the best equation for the category expansion and, for our client, optimisation of the Trade Spend ROI.

The client managed to successfully implement the recommendations for the majority of the items in their portfolio and, given its high relevance in the competitive set, bring positive results for the category as a whole.

For the client alone, ROI figures for the main two business units increased significantly meanwhile reducing the wastage caused by inefficient promotions.

Brand K: US\$7.6 million less wastage in MAT 2019 (dog & cat food)

Level for level (L4L) portfolio – Significant enhancement in dog trade spend ROI \$ including in the 8 months

US\$19.8 mln
MAT 2018

L4L



US\$12.2 mln
MAT 2019

Dog food	ROI – 1.33	ROI – 1.52
Cat food	ROI – 1.31	ROI – 1.44

*MAT – Moving annual target



NielsenIQ Analytics: Winning with effective price and promotion strategies

State-of-the-art modelling and platforms

The case study demonstrates how our modelling methods, based on actual retail data, were able to guide our client's pricing and promotion strategies, that ultimately led to increased revenue and category growth.

Unparalleled consulting services

Through in-depth consultation with our experts, clients are guided on how to best approach their conversations with retailers.

Actionable results driven by trusted data

- Averted mistakes that are costly to top-selling brands or items
- Lessened the impact of price increases over time by employing targeted items with singular/low response to both regular price and promoted price
- Reduced wastage of inefficient promotions and and improvement of the trade spend ROI

For more information about NielsenIQ Price and Promotion analytics, contact your NielsenIQ representative.



About NielsenIQ

NielsenIQ is the leader in providing the most complete, unbiased view of consumer behavior, globally. Powered by a groundbreaking consumer data platform and fueled by rich analytic capabilities, NielsenIQ enables bold, confident decision-making for the world's leading consumer goods companies and retailers.

Using comprehensive data sets and measuring all transactions equally, NielsenIQ gives clients a forward-looking view into consumer behavior in order to optimize performance across all retail platforms. Our open philosophy on data integration enables the most influential consumer data sets on the planet. NielsenIQ delivers the complete truth.

NielsenIQ, an Advent International portfolio company, has operations in nearly 100 markets, covering more than 90% of the world's population. For more information, visit www.nielseniq.com.