



**MAXIMIZE PROMOTIONAL
EFFECTIVENESS WITH
TRUE NET COST ANALYSIS**



OVERVIEW

It's no secret that 2020 has been a challenging year for retail businesses. Although overall sales have gone up in many sectors such as grocery, there has been a drastic change in prices, cost of goods, and promotions due to the impact of the COVID-19 global pandemic. This has made it more challenging than normal for retailers to track and measure the success of their key promotions and categories.

In this white paper, *Maximizing Promotional Effectiveness with True Net Cost Analysis*, we outline how shifting sales can hide areas of challenge or opportunity for retailers and how to identify promotional inefficiencies to maximize overall margin improvement. In addition, we will also discuss using relative change metrics to highlight vendor performance inconsistencies.

We will also explore:

- ◆ True Net Cost and Margin Analysis: a deeper level of visibility into product and vendor performance
- ◆ Technology and Analytics: pulling the data together
- ◆ Use Case Examples: the path towards promotional effectiveness

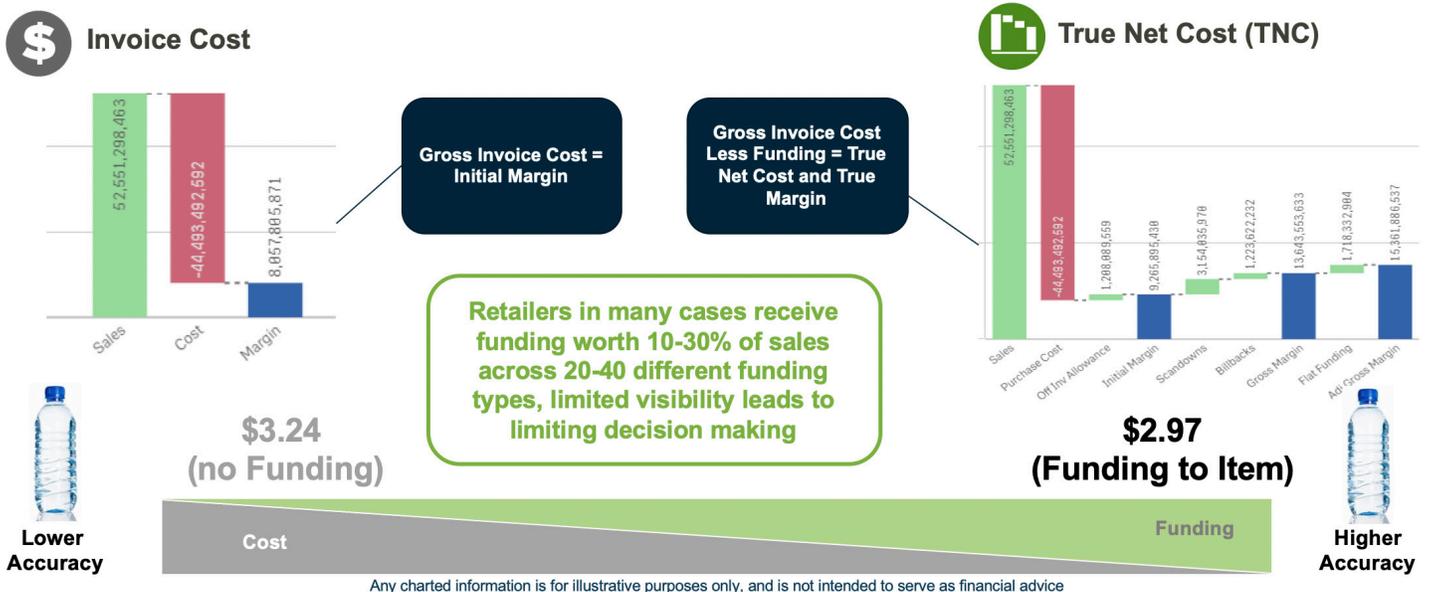
TRUE NET COST AND MARGIN ANALYSIS: A DEEPER LEVEL OF VISIBILITY INTO PRODUCT AND VENDOR PERFORMANCE

What is True Net Cost?

The word “net” in terms of cost or financial data, means that there is a corresponding “gross” or total figure. The net or “true” cost of an item is the gross cost minus its financial benefit.

When comparing margin, the default measurement is to subtract cost from the sale price. And too often, this is where the margin calculation stops; whether it’s because the additional necessary data isn’t available or the effort to get to the true margin is too costly.

However, in order to gauge the true cost and margin of product sales, retail businesses must include promotional dollars into the mix. Due to the variety, timing, types, different points of application, and how funds are applied – correctly applying promotional funding to the product margin is often prohibitively difficult but absolutely necessary.



According to this chart, you can be reviewing the same product with the same sales and costs. On one side, without funding, you have a lower accuracy where you think the product cost is \$3.24. However, on the other side, if you correctly allocate the promotional funding, the cost becomes \$2.97 which then allows you to calculate the true product margin.

Margin Analysis

It is critical to accurately apply promotional funding to each individual product, vendor and category. This can be accomplished with the right expertise, data model and purpose-build platform. An analytics partner with a proven track record of success and value in this area is a pivotal accelerator to gaining true net cost and true margin visibility into all of your products and vendors.

In addition, an experienced partner can provide a wealth of analytics that focus on hidden opportunities like; seeking missing promotional dollars, unmet contractual obligations, cost changes, shifts between regular and promotional product mix, and various other insights to help maximize your sales and margin.

Technology and Analytics: pulling the data together

It's important to seek out an analytics partner that maintains a purpose-built mass data technology platform which allows them to quickly ingest an enormous amount of data in a scalable way. This partner should be focused on helping you analyze and visualize the data available to give you a better understanding of your promotional effectiveness. Through our advanced analytics services, PRGX has access to product, sales and cost data to compare true net cost and actual margins.

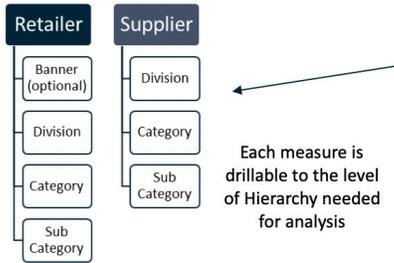
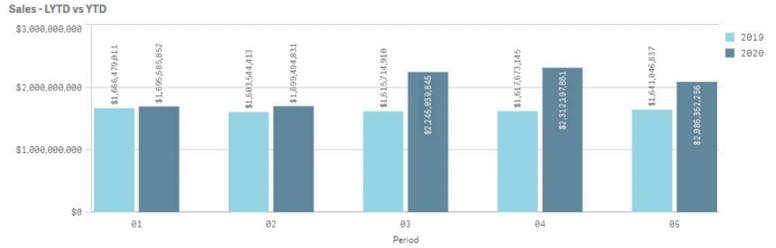
Use Cases: the path towards promotional effectiveness

Once you have the foundation of comprehensive visibility and access to all of your products' sales, cost, promotions and margin, the next step is to measure and compare the impact of each individual promotion. By doing so, you'll be able to compare the effectiveness of each promotion as well as set a path to forecast promotion results based on how consumers reacted in the past. Here are some example scenarios that outline the path towards measuring promotional effectiveness with true net cost analysis.

Scenario #1

YTD 2020 Results:

Sales	▲ 23%
Purchases (COGS)	▲ 18.5%
Adjusted Gross Margin (AGM)	▲ 31%



AGM Scorecard

Level	2019 LYTD	2020 YTD	Delta (\$)	Delta (%)
Sales	\$8,144,458,316	\$10,038,670,646	▲\$1,894,212,330	▲23.26%
Cost	\$6,900,544,596	\$8,179,933,252	▲\$1,279,388,656	▲18.54%
Off Invoice	\$183,919,676	\$230,133,863	▲\$46,214,186	▲25.13%
Initial Margin	\$1,427,833,397	\$2,088,871,256	▲\$661,037,860	▲46.30%
Scan Downs	\$487,997,089	\$480,416,118	▼-\$7,580,971	▼-1.55%
Bill Backs	\$180,807,785	\$215,566,035	▲\$34,758,250	▲19.22%
Gross Margin	\$2,096,638,271	\$2,784,853,409	▲\$688,215,139	▲32.82%
Flat Funding	\$276,988,188	\$275,098,622	▼-\$1,889,566	▼-0.68%
Adj Gross Margin	\$2,373,626,459	\$3,059,952,031	▲\$686,325,573	▲31.34%
AGM%	29.14%	30.48%	▲1.34%	

So everything is great right?

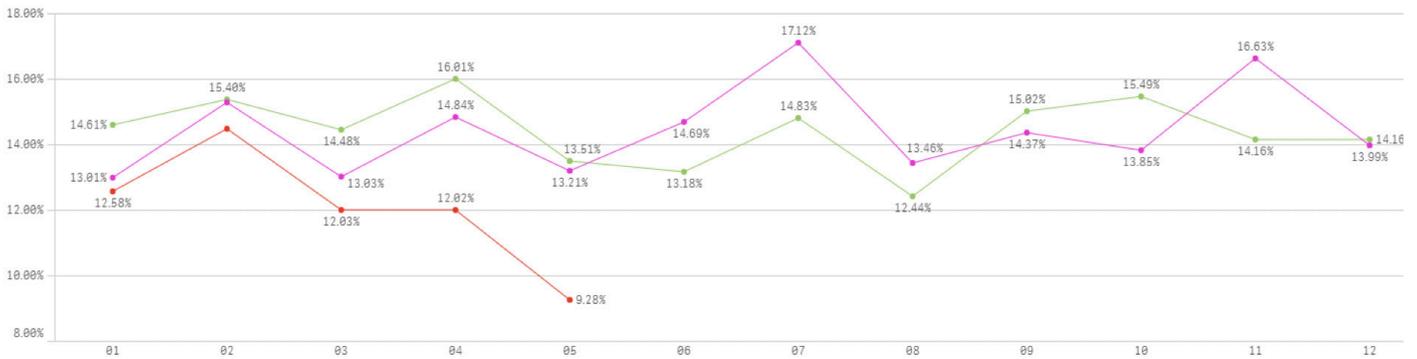
The bar chart on the top right represents a year over year comparison of the first five periods of 2020 (dark blue), against the same periods in 2019 (light blue). In this example, at the beginning of the COVID-19 pandemic, people began to stockpile food and other goods to prepare for the potentially lengthy quarantine. As a result, sales for retail/ grocery businesses spiked during periods three, four and five.

Overall, sales increased 23% over the first five periods of 2020 versus the same periods in 2019. And of course, as sales rose, so did the cost - in this case an 18.5% increase. Lastly, the overall margin rose 31%. On the surface, the increase in sales had only positive impact on the business. But there's more to learn in this scenario.



Dig Deeper

When looking at the scan down and flat funding promotions, not only did the scan down not rise along with sales, it actually decreased year over year. While a rising tide should raise all boats, in this case, we can start to see that there are some areas of change and inefficiencies that can be uncovered beneath the surface.



In the above diagram, you can see the 2020 funding rate in red, dramatically lower than the same periods from the previous two years. This is an introductory view into funding that is critical in comparing the year-over-year funding rates for each product, vendor and category. Whereas dramatic changes in sales can hide actual changes at the unit or dollar amount level, an accurate insight into true cost and margin can highlight where performances require attention and action.



Scenario 3: Promotional Effectiveness

As we progress through the platform, what becomes quickly evident is that each promotion is tied to a set promotional period and the sales, units, funding and margin are all available per each UPC and above. Note that the level of granularity can be quickly leveraged to compare different promotions for the same product in the same locations. This allows you to measure the effectiveness of each promotion depending on whether you were seeking volume, revenue or margin increases as the result of the promotion.

The next evolution of this insight is to then be able to use the historical impact of each promotion to forecast the success of the next promotion. Imagine being able to select a product, apply the promotions being considered and see that historically it has resulted in a 15% increase in volume and 7.8% increase in margin - or better yet, allowing the algorithm to recommend the most effective promotion for this product for this period in this market.

SUMMARY

WHERE DO WE GO FROM HERE?

Sales, buying habits, impact of promotions and the overall retail industry are experiencing rapid change as a result of major events, and that's why it's more important than ever to have the right technology and analytics partner to help you quickly gain insight from the data and drive action to maximize your margin and promotional dollars. PRGX is on the cutting edge of development with many of these emerging trends, and we are ready to partner with companies to help them realize the power of technology, audit and analytics.