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# Giant Consumer Products: The Sales Promotion Resource Allocation Decision

## Introduction

It was early September 2008 at Giant Consumer Products, Inc. (GCP), headquarters. The Frozen Foods Division (FFD) was not doing well. The division's sales volume (in units) was 3.9% behind plan, and gross revenue was under plan by 3.6%. Consumers were simply buying less and they were buying in a different product mix than expected; however, prices were not being reduced to stimulate sales. Marketing margin,<sup>1</sup> considered internally to be the most critical metric for evaluating businesses at GCP, was also under plan by 4.1% (see **Exhibit 1**).

This news couldn't have come at a worse time. GCP had been a darling of Wall Street, but in the past couple of quarters, analysts were wondering whether GCP's above-industry average growth could be maintained. More important, could the growth be maintained profitably? GCP had been counting on FFD to deliver the numbers, as the division had done historically; poor results in FFD would certainly impact the firm's financial stature.

GCP's chief executive officer (CEO), Allan Capps, had met with Byron Flatt, GCP's vice president of sales to discuss the shortfall in FFD's results. Flatt hastily suggested undertaking a sales promotion, and added: "Allan, the point-of-sale scanner data that we purchase from Nielsen (a syndicated marketing research firm) has consistently shown that running a promotion that features our FFD brands on special in a retailer's in-store weekly circular and on end-aisle displays is a tried-and-true mechanism for generating short-term sales lifts." While Capps appeared to nod in agreement, he quickly countered:

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<sup>1</sup> Marketing Margin is a preliminary "bottom line" profit metric widely utilized in the consumer packaged goods industry that reflects the amount that the item contributes to corporate costs and overhead charges after all marketing expenses are incurred. It is calculated by subtracting selling, distribution and advertising expenses from gross margin.

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Byron, I recall reading an article which described trade promotions as being “the most expensive, most controversial, and least understood marketing tool deployed by manufacturers.”<sup>2</sup> Given that the authors’ assessment is consistent with my own experience at GCP and in handling merchandising when I worked for Safeway—the supermarket chain—prior to joining GCP, I would like to heed their warnings regarding the downsides of sales promotions at each level of the channel. For us, these include mitigating the potential for cannibalization (i.e., promoting one item and having any incremental volume come at the expense of another item) and brand equity erosion (i.e., implementing a “price-off” deal on a super-premium brand without tarnishing its premium image). As you know, we have pulled back on the level of promotion recently because we had concerns about how promotions could cheapen the brand.

In relation to retailers, it requires reducing the possibility of forward-buying (i.e., retailers purchasing a large quantity of the product while it is available at a lower price-to-retailer (PTR)). This practice of forward-buying is potentially problematic because retailers could either raise the price-to-consumer (PTC) back to the regular price level after the intended period of the promotion and pocket the difference, or they could continue to sell the product at a lower PTC beyond the intended period and thereby condition consumers to expect our well-trusted brands “on deal.” Non-compliance with pass-through (i.e., having retailers receive products at a discounted PTR and then not passing along the savings to consumers via a discounted PTC) is another retailer-related threat requiring consideration. And we can’t forget about stockpiling by consumers (i.e., buying large quantities to store for future use). So, Byron, while I understand your argument about sales uplift, this decision requires careful attention to the reasons I’ve outlined. Given the tough year we’re facing, I’m willing to reconsider. But, I don’t want to open this up unless this promotion ultimately proves to be a “win” for all parties involved....Let me contact Mary to let her know that I may make some funding available. She will need to convince me that the funds will generate the needed demand without undermining the long-term health of our brands.

On the morning of September 4, Capps contacted Mary Davidson, general manager of FFD, to inform her of an 8:00 a.m. meeting that had been scheduled for the next day. He told her of the possibility that a promotion could be fielded in her division, and told her that she should arrive prepared to recommend whether a sales promotion should be fielded, and if so, to identify the most appropriate item to promote. Davidson immediately contacted Mike Sanchez, who had been recently promoted to director of marketing at FFD. He was well aware of the shortfall, and had become increasingly concerned about the performance of the two brands under his control—*Dinardo’s*<sup>TM</sup> and *Natural Meals*<sup>TM</sup>. Sanchez was relieved to hear that senior management was considering making available one more promotion opportunity; Sanchez knew he’d be called on to recommend whether a national sales promotion should be run at all, and if so, which one of the three items should be selected: (a) *Dinardo’s*<sup>TM</sup> 32-ounce packages, (b) *Dinardo’s*<sup>TM</sup> 16-ounce packages, or (c) *Natural Meals*<sup>TM</sup>.

Sanchez, who had been promoted to brand manager two years ago at GCP by institutionalizing a methodology for evaluating the results of past national promotions, was well aware that he would need to generate several important metrics so that he could substantiate his recommendation. The first two—top-line revenue and marketing margin, were straight-forward. He was introduced to another important metric by his colleagues in finance. During his career, marketing at GCP had transitioned from an era where marketing resource allocations were considered an expense—or “necessary evil” as the former chief financial officer (CFO) put it—to the view that they were

<sup>2</sup> David R. Bell and Xavier Dreze (2002) “Changing the Channel: A Better Way to do Trade Promotions,” *MIT Sloan Management Review*, Winter, pp. 42-49.

“investments” requiring a favorable return. The term return on marketing investment (ROMI) had been coined to refer to the return (marketing margin) from undertaking a marketing initiative in relation to its cost (promotion cost). The new CFO advocated the importance of making the most productive use of resources and was often overheard explaining that ROMI should be positive—anything less than 0 was not deemed profitable. Sanchez was therefore cognizant of the reality that he would also need to evaluate how the past national promotions had fared on the basis of ROMI (incremental profits (net of cost of promotion)/cost of promotion).

## Industry and Company Context

Supermarkets had increasingly been turning to category management, which involved managing each product category (ready-to-eat breakfast cereals, carbonated soft drinks, etc.) as a separate business unit and customizing merchandising and promotion activities to optimize the retailer’s (and possibly the producer’s) returns. This practice allowed retailers to tailor their product assortment to a given market, determine the best location of products on their shelves, and develop promotions in each category to best satisfy the needs of the local customer base, thereby enticing customers to place more items in their “market basket” during each store visit.

The “frozen meal and entrees” category represented one of the largest categories in the frozen foods aisle in supermarkets. The category had seen steady, moderate expansion between 2003 and 2007, with a compound annual growth rate (CAGR) of 2.8%; however, category growth since 2007 had been much lower than what had been registered during the prior five-year period. Restaurants, which captured almost half of all consumer dollars spent on food, had become a formidable rival to supermarkets. But some forward-thinking retailers had aggressively sought to attract traffic away from restaurants by offering an array of fresh, convenient, high-quality, already prepared foods. While these “heat-and-eat” offerings were more convenient and less expensive than dining at restaurants, they were twice as expensive as frozen dinners.

In some product categories, it had become common practice for increasingly “deal conscious” consumers to purchase products months ahead of their consumption requirements. Given the high degree of promotions in some categories, a portion of consumers did not consider purchasing *any* item unless it had been discounted. For those who were willing to switch brands, sizes, and flavor varieties, being a “promotion-centric” consumer had become a viable option, and “stockpiling” discounted goods saved them money over the long haul. Sanchez, however, did not view stockpiling to be a pressing concern because it was not prevalent in frozen foods—the freezers in most homes were simply not large enough.

FFD, which took great pride in having the most customer-centric management team in the frozen foods industry, had successfully grown over the past 30 years by having anticipated trends such as the emergence of dual-career families, increases in commute times, and less time available for meal preparation. FFD had consistently delivered on the promise of convenient, good-tasting food at a reasonable price to its growing customer base. FFD had a 43% national market share (by revenues) in the “Italian frozen dinners and entrée offerings” subcategory. FFD’s two brands, *Dinardo’s*<sup>TM</sup> and *Natural Meals*<sup>TM</sup>, were sold in the frozen foods aisle of the grocery store, usually in vertical freezers with glass doors alongside all other types of frozen entrees, snacks, and desserts, which were displayed in creative, enticing packages.

The frozen foods aisle was large and diverse in both the number and types of brands, as well as the number and types of product offerings, and Italian frozen dinners was a sub-category in this offering. GCP defined its competition in this manner because prior in-store consumer studies had revealed that consumers’ typical product selection hierarchy went as follows: (1) type of meal

(Italian, Mexican, meat & potatoes, etc.); (2) brand (*Dinardo's*<sup>TM</sup>, *Natural*, *Manly Meals*, etc.); and (3) variety (i.e., noodle, ravioli, etc.).

### *The Dinardo's*<sup>TM</sup> Brand

The key contributor to FFD's bottom line was *Dinardo's*<sup>TM</sup>, a brand that generated over \$425 million in revenues annually. *Dinardo's*<sup>TM</sup>, which was introduced in the early 1970s, featured such traditional favorites as Spaghetti & Meatballs, Lasagna, and Chicken Cacciatore. *Dinardo's*<sup>TM</sup> meals were simple, but GCP's use of quality ingredients and seasonings made *Dinardo's*<sup>TM</sup> meals taste better than those made by Daft and other producers, who had reduced the quality of ingredients in an attempt to increase profitability. *Dinardo's*<sup>TM</sup> was typically packaged in a thin cardboard box, with a picture of the particular entrée on the box cover. An inner pack consisting of a foam tray with a removable plastic cover slid out of the box so the meal could be heated in either a microwave or a conventional oven.

The *Dinardo's*<sup>TM</sup> brand was available in three sizes. The 32-ounce package (D32) was initially positioned by FFD as a fairly inexpensive way to feed a family of four, and it became an overnight success. Although the customers attracted to these *Dinardo's*<sup>TM</sup> packages were price-conscious, they tended not to buy private-label goods because the packaging and product quality were perceived as sub-par. *Dinardo's*<sup>TM</sup> 16-ounce package (D16) was an answer to the requirements of several emerging consumer niches. Both "empty nesters" (parents whose children had moved out from home) and busy professional couples without kids sought simple, easy to prepare, good-tasting meals that were the right size for two people. The other sizes (6- and 8-ounce packages) were developed to serve single consumers and for eat-alone occasions. Although initial research suggested that these smaller items would attract minimal interest, GCP had to make these other sizes available so that retailers could satisfy the needs of all their customers. Due to the operational complexity of food retailing, most producers needed to serve a retailer's entire consumer base, not just a segment or two. It was simply too expensive for retailers to carry, order, and distribute product lines from manufacturers that served only small portions of the retailer's consumer base.

### *The Natural Meals*<sup>TM</sup> Brand

*Natural Meals*<sup>TM</sup>, a highly successful regional brand that GCP had acquired in 2006, accounted for roughly 25% of the frozen food division's revenues (almost \$150 million per year). At the time of the acquisition, the brand, started in the late 1990s in San Francisco, was available only at the two largest supermarket chains. *Natural Meals*<sup>TM</sup> had earned a reputation for producing great-tasting, organic frozen foods that were low in fat and did not contain unnecessary additives or preservatives.<sup>3</sup> The *Natural Meals*<sup>TM</sup> packaging, while physically similar to *Dinardo's*<sup>TM</sup>, had very different imagery. It was designed specifically not to look like a typical "big company" frozen foods product; instead it used a folksy color palette and imagery. This packaging was quite appealing to health-conscious consumers, who were sometimes characterized as "California types." It was believed that these health-conscious consumers would not be interested in the *Dinardo's*<sup>TM</sup> product line and that the *Dinardo's* customer base would not be enticed to purchase *Natural Meals*<sup>TM</sup>; therefore, there was minimal threat from cross-brand cannibalization.

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<sup>3</sup> The term "natural foods" applies broadly to foods that are minimally processed and free of synthetic preservatives. Most foods labeled "natural foods" are not subject to government controls beyond the regulations and health codes that apply to all foods. In contrast, foods labeled "organic" must be grown and processed using organic farming methods and must be grown without synthetic pesticides, bioengineered genes, petroleum-based fertilizers, and sewage-sludge based fertilizers. To be labeled "organic," they must be certified under the National Organic Program. For additional details, please see: (<http://www.fda.gov/ohrms/dockets/dockets/06p0094/06p-0094-cp00001-05-Tab-04-Food-Marketing-Institute-vol1.pdf>)

*Natural Meals*<sup>TM</sup> had become the clear leader in the “healthy but edible” segment, as Sanchez often joked. GCP, with manufacturing and distribution synergies emanating from related foods businesses, predicted that it would be able to grow the business at 5 to 10 times the current rate and with a materially lower delivered cost (cost of goods sold, distribution and sales expense) than the original company, due to efficiency gains resulting from scale economies.

By January 2008, *Natural Meals*<sup>TM</sup> had been fully integrated into GCP’s manufacturing and distribution operations and was available at most retailers in almost every significant market. The brand, featuring such flavors as Penne al’Arrabiata, Eggplant Ravioli, and Garden Pesto Tagliattelle—recipes suited to a more sophisticated palate than *Dinardo’s*<sup>TM</sup>—was well-received by retailers. One reason GCP had been able to secure shelf space was the clout that it carried with large supermarket chains. Another factor was the greater margin that its super-premium pricing offered retailers. Carrying healthier alternatives also helped supermarkets attract store traffic away from rival natural foods retailers (e.g., Whole Foods).

The closest competing firm in “Italian frozen dinners,” Daft, had been holding steady with a 25% market share, with most of its volume generated by the *Manly Meals* brand. Daft, being well aware of shifting consumer habits, was rumored to have organically developed its own offering. It was test marketing *Healthy Options* during the fourth quarter of 2008 and would be introducing the super-premium line nationwide in early 2009 if the test results proved favorable. This new product introduction was of considerable interest to Sanchez. Evaluating this promotion in the context of competitive strategy would be important; these decisions were never made without considering the competitive ramifications. If Sanchez were to field a sales promotion, the possibility existed that Daft could either increase the incidence and/or depth of its own promotions.

## Promotional Planning and Execution at FFD

GCP went through the following approach to generating FFD’s annual plan (see **Exhibit 1**). First, senior management set overall top-line and profitability goals that GCP needed to hit in order to achieve its desired stock price. Then for each division, specified annual targets for key metrics (i.e., top-line sales revenue, etc.) were set by the senior team and all the product marketing divisions. Next, for each FFD brand, annual targets for the same key metrics (i.e., top-line sales revenue, etc.) were negotiated and agreed by the division head (Davidson) and the brand teams.

In structuring its promotions with retailers, GCP had historically taken a fairly standard approach. An annual promotion plan was developed and approved by GCP at the outset of the calendar year. The duration of promotions was usually one week—a standard length of time in the frozen foods industry. The timing (i.e., in which month the promotion would be run) was determined by a number of factors, such as seasonality, purchase frequency, and production capacity. FFD’s key account management teams would inform retailers about the yearly promotion schedule well in advance, and then offer them the opportunity to participate during the week of their choice during the chosen month to undertake a promotion. The standard was to fund retailers for providing an end-aisle display, offering a temporary price reduction to consumers, and featuring the lower price to consumer (PTC) in the retailer’s weekly insert/circular.

In implementing the promotions, retailers would place their order about a month before the promotion. Since FFD relied upon direct store delivery of its products in refrigerated trucks, the sales force would then be responsible for building the displays and removing any product on retailers’ shelves that was nearing its expiration date. It should be noted that retailers took title to FFD goods as soon as those items were physically on the retailer’s premises. That meant that retailers would bear the loss for any FFD products that went unsold.

## The Allocation Decision

FFD's financial performance was significant to GCP. The division, which was expected to drive approximately \$600 million in gross revenues for 2008, accounted for almost a third of GCP's overall business volume.

Sanchez and Davidson were highly motivated to figure out a way to hit the numbers, but only if it was the right decision for the company, because they both firmly believed that ROMI trumped simply evaluating the top-line (i.e., gross revenue) growth. Being able to demonstrate an improved ROMI would mean better funding next year for true brand-building activities, such as advertising, packaging enhancements, and new-product introductions.

Sanchez knew that FFD's strong position in the category enabled the firm to exert a great deal of influence over retailers in terms of which items should be promoted and in securing compliance and pass-through. Furthermore, retailers had come to learn that consumers loved GCP's brands and that promoting those brands would drive store traffic. Thus, while it would be difficult for most producers to add another promotion this late in the year, it would not be for GCP; however, this was not routine practice.

Given the urgency of the situation, Sanchez immediately began contemplating whether a national sales promotion would be a good idea. He sensed that there would be three main effects of a promotion: increased overall consumption (market growth), purchase time acceleration (stockpiling) and brand switching (potentially including switching away from some of GCP's own products). To estimate the magnitude of these effects, he knew that he would have to start by evaluating the performance of past FFD promotions, and that he could do so by calculating the ROMI for promotion allocations to D32, D16, and *Natural Meals*<sup>TM</sup>.

Sanchez proceeded to jot down an analytical framework on his office white board (see **Exhibit 2**) and developed a blank worksheet (see **Exhibit 3**) that could be used to explain his analytical approach. He also needed to have the information on past promotions that had been run on D32 (four over the past two years) and D16 (five over the past two years) to evaluate how the past promotions had fared (see **Exhibit 4**).

As outlined in **Exhibit 3** (see part 1), his first step was to establish how much incremental volume was associated with running a promotion, to convert this to revenue and then to deduct direct expenses such as the promotional expenses, cost of goods sold (COGS), and shipping costs to estimate the benefits of a promotion.

Sanchez was also concerned about the indirect cost of cannibalization—non-promoted items in FFD's product portfolio that would have normally been purchased, but were not because consumers switched to the promoted FFD item instead. This could be estimated by looking at sales volumes of one product when another product was being promoted (see **Exhibit 3** – part 2).

Finally, he needed to calculate the ROMI for each promotion choice and make his recommendation to Davidson, with reference to how large the potential benefits would be and whether these would be sufficient to push the year's numbers to the point where they would put GCP at the low end of Wall Street's expectations, as the CEO had suggested it might.

Sanchez now had all the data he needed to analyze and recommend a promotion. But there were some nuances regarding *Natural Meals*<sup>TM</sup> that needed to be taken into consideration:

- *Natural Meals*<sup>™</sup> varieties were available only in one size—16 ounces. The items were also “line priced,” meaning the suggested retail price/unit was the same for all varieties, and the wholesale price for these items was the same per unit across the entire line.
- *Natural Meals*<sup>™</sup> had historically appealed to a niche market, but the brand showed extraordinary growth for the consumer product goods industry—about 15% per year. Further, *Natural Meals*<sup>™</sup> was somewhat sub-scale for in-store promotions (i.e., bigger brands could amortize display costs across a higher volume).
- Many products had historically been launched, then promoted to jump-start consumption. However, GCP hadn’t promoted *Natural Meals*<sup>™</sup> extensively because of concern over tarnishing the brand’s premium image. Since *Natural Meals*<sup>™</sup> had never run a national promotion, it was necessary to develop a projection if one was to be fielded for the brand. There had been some “regional” promotion activity during the past two years, so Sanchez felt that it would be safe to extrapolate those results to a national level. He thereby assumed that 25% of stores would be willing to participate, should *Natural Meals*<sup>™</sup> decide to run a national promotion. He proceeded with his analysis as outlined in **Exhibit 3** – part 3.

Sanchez knew he would have to deliberate the tradeoffs involved with promoting each of the three FFD items, and articulate to Capps the financial implications of each. In addition, he knew that Flatt would likely pose him some additional strategic as well as tactical questions, including:

- 1) Would the promotion end up being a “win” for not only FFD, but also for retailers and consumers?
- 2) How should FFD structure the promotion? Should FFD go with the “off invoice pricing” that retailers often preferred—having the manufacturer temporarily reduce the price-to-retailer (PTR) of a given item for a specified time so that retailers could purchase it in the quantity desired—or should FFD stick with the “pay-for-performance” approach? (Under the “pay-for-performance” approach, retailers were compensated only for the actual amount that they sold during the promotional period, as verified by registered scanner data.) Alternatively, should FFD compensate retailers only if they hit some pre-established target?

**Exhibit 1 2008 Frozen Foods Division Key Metrics**

	2008 Frozen Foods Division ANNUAL PLAN		
	Frozen Division	Dinardo's 32	Dinardo's 16 Dinardo's Other Natural Meals
Volume (lbs.)	251,800,000	95,800,000	47,500,000
Gross Revenue	603,280,000	201,180,000	144,550,000
Promotion Spending	80,000,000	25,000,000	15,000,000
Net Revenue	523,280,000	176,180,000	129,550,000
COGS	198,543,500	64,665,000	40,243,500
Gross Margin	324,736,500	111,515,000	88,306,500
Selling/Distribution	18,098,400	6,035,400	4,306,500
Advertising Expense	65,000,000	21,900,000	15,700,000
Marketing Margin	241,638,100	83,579,600	37,070,000

Key Metrics	2008 Frozen Foods Division ANNUAL PLAN		
	Frozen Division	Dinardo's 32	Dinardo's 16 Dinardo's Other Natural Meals
Marketing Margin %	40%	42%	33%
Gross Revenue/lb.	2.40	2.10	2.45
Gross Margin/lb.	1.29	1.16	1.22
Marketing Margin/lb.	0.96	0.87	0.88
\$Promo/Incr. lb.	1.49	1.11	2.08
Variable Expense/lb.	0.86	0.74	0.83
Promo Cost/Point	178,928	191,223	182,485

	2008 Frozen Foods Division PLAN THROUGH AUGUST		
	Frozen Division	Dinardo's 32	Dinardo's 16 Dinardo's Other Natural Meals
Volume (lbs.)	166,650,000	61,273,000	32,380,000
Gross Revenue	399,772,350	128,673,300	78,988,800
Promotion Spending	53,315,000	15,990,000	17,322,000
Net Revenue	346,457,350	112,683,300	61,666,800
COGS	131,787,139	41,359,275	25,020,049
Gross Margin	214,670,211	71,324,025	36,646,751
Selling/Distribution	11,993,171	3,860,199	2,369,664
Advertising Expense	43,333,333	14,600,000	8,266,667
Marketing Margin	159,343,707	52,863,826	26,010,420

Note: The Exhibit 1 data set is available in electronic format in an Excel spreadsheet for students that accompanies this case (see "ProfitLoss" tab in the spreadsheet).

**Notes for Exhibit 1:**

In the consumer packaged goods industry, products are often priced and promoted according to their sizes for various operational reasons. The Frozen Food Division (FFD) is organized around four items: (1) "Dinardo's<sup>TM</sup> 32" (refers to the assortment of 32-ounce package offerings in the Dinardo's<sup>TM</sup> 16" brand), (2) "Dinardo's<sup>TM</sup> 16" (the 16-ounce size varieties), (3) "Other Dinardo's<sup>TM</sup>" (the various other sizes of Dinardo's<sup>TM</sup> products), and (4) "Natural Meals<sup>TM</sup>" (which refers to the assortment of Natural Meals<sup>TM</sup>, which are available only in the 16-ounce size packages).

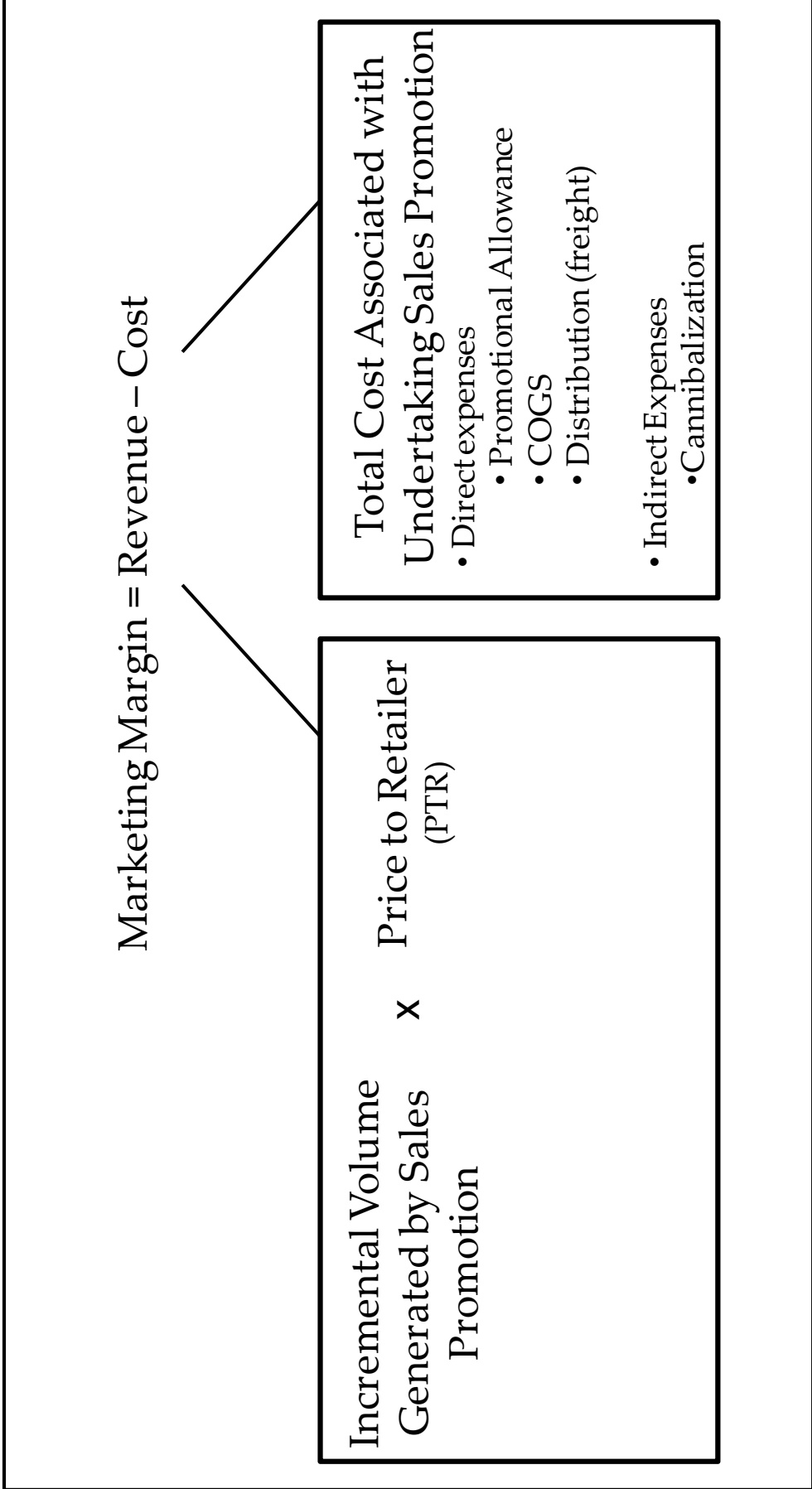
"Promotion Spending" is the amount allocated by firms for initiatives to secure end aisle displays with price markdowns in supermarkets and space in retailers' in-store advertising circulars. FFD determines the dollar amount to be allocated for each of its four items at the beginning of the year.

"Gross Revenue/lb." is a metric used by FFD to equalize the revenue generated across products on equal terms and represents the sales price per unit weight of product being sold. This figure can be equated with the price that the producer charges the retailer (i.e., price-to-retailer, which is often referred to as PTR). PTR differs from the price-to-consumer (PTC); the former should be used to calculate revenue implications for the producer in this case.

"Variable Expense/lb." is a metric that is frequently used by brand managers in consumer packaged goods. It's an "all costs in" figure that permits managers to evaluate costs on a relative basis between brands or items. This is calculated by summing COGS + Selling/Distribution Expense and dividing by Volume (lbs), and has remained relatively stable over the previous two years for each product line.

"Promo Cost/Promo Point" is the cost associated with securing 1% of stores to promote the product for one month. Retailers don't promote consumer packaged goods products for free, and each "point" is able to generate some amount of incremental promotion sales. This is calculated by dividing Promotion Spending above by the sum of "%Store Promoting" in Exhibit 4 over the past 12 months, and has remained relatively stable over the previous two years for each product line.

	2008 Frozen Foods Division ACTUALS THROUGH JULY									
	Frozen Division	vs. Plan	Dinardo's 32	vs. Plan	Dinardo's 16	vs. Plan	Dinardo's Other	vs. Plan	Natural Meals	vs. Plan
Volume (lbs.)	160,098,328	-3.9%	59,016,558	-3.7%	30,680,906	-6.8%	36,625,617	-8.6%	33,775,247	4.3%
Gross Revenue	385,249,923	-3.6%	123,934,773	-3.7%	73,634,175	-6.8%	89,732,761	-8.6%	97,948,215	4.3%
Promotion Spending	51,333,944	-3.7%	17,216,786	7.7%	14,694,006	-15.2%	9,795,479	-3.9%	9,627,673	-1.9%
Net Revenue	333,915,979	-3.6%	106,717,986	-5.3%	58,940,169	-4.4%	79,937,282	-9.2%	88,320,542	5.0%
COGS	126,329,376	-4.1%	39,836,177	-3.7%	23,323,948	-6.8%	35,709,976	-8.6%	27,459,275	4.3%
Gross Margin	207,586,603	-3.3%	66,881,809	-6.2%	35,616,221	-2.8%	44,227,305	-9.6%	60,861,267	5.4%
Selling/Distribution	11,557,498	-3.6%	3,718,043	-3.7%	2,209,025	-6.8%	2,691,983	-8.6%	2,938,446	4.3%
Advertising Expense	43,233,500	-0.2%	14,450,000	-1.0%	8,500,000	2.8%	10,233,000	-2.2%	10,050,500	0.5%
Marketing Margin	152,795,605	-4.1%	48,713,766	-7.9%	24,907,196	-4.2%	31,302,323	-11.9%	47,872,320	6.5%



**Exhibit 3** Solution Template–Part 1–Considering Promotion Impact on the Promoted Item

<b>Average Monthly Volume for:</b>	<b>Dinardo 32</b>	<b>Dinardo 16</b>
1. When that item is ON Promotion	.....	.....
2. When that item is NOT ON Promotion	.....	.....
3. When NOTHING is ON Promotion <sup>a</sup>	.....	.....
Incremental Volume from promotion (step 1 – step 3)	.....	.....
Revenue change from promotion (Incr. Volume * Gross Rev/lb (i.e., PTR)	.....	.....
Variable Cost change from promotion (Incr. Volume * Var Exp/lb)	.....	.....
Promotion Cost change from promotion (Change in “% store promoting” (i.e., when item ON Promotion vs. when NOTHING is ON Promotion) * Promo Cost/Promo Point)	.....	.....
Marketing Margin Change from promotion (Revenue change from promotion – Variable Cost change from promotion – Promotion Cost change from promotion)	.....	.....

<sup>a</sup> This is the case when neither D32 nor D16 are being promoted.

**Exhibit 3 (continued) Solution Template–Part 2–Considering Within-Brand Cannibalization Effects of Promotion**

<b>Average Monthly Volume</b>	<b>Dinardo 32</b>	<b>Dinardo 16</b>
1. When the other <i>Dinardo's</i> item is ON Promotion	.....	.....
2. When NOTHING is ON Promotion <sup>a</sup>	.....	.....
Volume change from promotion of other item	.....	.....
Revenue change from promotion of other item	.....	.....
Variable Cost change from promotion of other item	.....	.....
Promotion Cost change from promotion of other product	.....	.....
Marketing Margin Change from promotion of other product	.....	.....
<b>Total Brand Impact from Promotion on Top-line Revenue</b>		
Total Effect of D32 Promotion (Line 5 for D32 from part 1 and the effect in Line 4 for D16 from this table for the effect on the other brand here)	.....	
Total Effect of D16 Promotion (Line 5 for D16 from part 1 and the effect in Line 4 for D32 from this table for the effect on the other brand here)		.....
<b>Total Brand Impact from Promotion on Marketing Margin</b>		
Total Effect of D32 Promotion (Line 8 for D32 from part 1 and the effect in Line 7 for D16 from this table for the effect on the other brand here)	.....	
Total Effect of D16 Promotion (Line 8 for D16 from part 1 and the effect in Line 7 for D32 from this table for the effect on the other brand here)		.....

<sup>a</sup> This is the case when neither D32 nor D16 are being promoted.

**Exhibit 3 (continued) Solution Template—Part 3—Considering Promotion Impact of Natural**

1. Average Monthly Incremental Volume for *Natural* .....  
(use Sep06–Aug08 data from Exhibit 4)
2. Average % Store Promoting for *Natural* .....  
(use Sep06–Aug08 data from Exhibit 4)
3. Average Monthly Incremental Volume / Promo Point .....  
(i.e., step 1 / step2)
4. Incremental Volume from 25% Promo Points .....  
(i.e., step 3 \* 25)
5. Revenue change from promotion .....  
(Incr. Volume \* Gross Rev/lb (i.e., PTR))
6. Variable Cost change from promotion .....  
(Incr. Volume \* Var Exp/lb)
7. Promotion Cost change from promotion .....  
(Promo Cost/Promo Point \* 25)
8. Marketing Margin Change from promotion .....  
(Revenue change from promotion – Variable Cost change from promotion – Promotion Cost change from promotion)

### Exhibit 4 September 2006—August 2008 FFD Sales Promotions and Sales Volume

		Frozen Division POS Data											
		Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07
Dinardo's 32	Baseline Volume	5,255,875	6,301,885	5,464,735	5,427,144	5,786,511	4,667,448	5,458,324	6,276,386	5,896,714	6,017,363	5,857,773	4,573,416
	Incremental Volume	961,316	1,461,240	3,737,878	1,071,080	1,291,706	1,154,498	5,141,741	1,193,724	1,344,682	1,297,308	1,460,526	937,212
	TOTAL Volume	6,217,191	7,763,126	9,202,613	6,498,225	7,078,217	5,821,946	10,600,064	7,470,110	7,241,396	7,314,671	7,318,299	5,510,628
	%Store Promoting	6.1	7.7	22.8	6.6	7.4	8.2	31.4	6.3	7.6	7.2	8.3	6.8
Dinardo's 16	Baseline Volume	3,470,754	3,050,260	697,092	2,976,125	3,052,371	3,085,296	234,457	3,523,780	3,102,688	2,887,549	2,652,496	3,410,772
	Incremental Volume	813,804	641,390	173,811	2,366,019	671,571	2,508,345	55,878	720,285	745,517	637,036	556,861	3,499,452
	TOTAL Volume	4,284,558	3,691,650	870,903	5,342,144	3,723,942	5,593,641	290,336	4,244,064	3,848,205	3,524,585	3,209,358	6,910,225
	%Store Promoting	7.8	7.0	8.3	26.5	7.3	27.1	7.9	6.8	8.0	7.4	7.0	34.2
Dinardo's Other	Baseline Volume	3,798,076	3,949,297	4,142,949	3,536,740	3,875,653	3,956,419	3,963,518	3,627,211	3,900,558	3,846,350	4,127,308	3,690,264
	Incremental Volume	711,726	860,578	1,059,390	681,240	855,985	966,899	826,315	939,127	719,039	916,641	1,111,596	853,688
	TOTAL Volume	4,509,803	4,809,875	5,202,338	4,217,980	4,731,638	4,923,318	4,789,833	4,566,339	4,619,597	4,762,990	5,238,903	4,543,952
	%Store Promoting	6.2	7.3	8.5	6.4	7.4	8.1	6.9	8.6	6.1	7.9	9.0	7.7
Natural Meals	Baseline Volume	2,748,630	2,715,298	2,689,319	2,669,800	2,760,764	2,800,959	2,720,617	2,895,908	3,226,134	3,059,521	3,215,001	2,873,620
	Incremental Volume	705,077	620,626	535,851	684,694	697,869	582,129	549,813	757,818	770,775	626,522	619,806	753,477
	TOTAL Volume	3,453,707	3,335,924	3,225,169	3,354,494	3,458,633	3,383,088	3,270,430	3,653,726	3,996,909	3,686,043	3,834,808	3,627,097
	%Store Promoting	8.6	7.6	6.6	8.5	8.4	6.9	6.7	8.7	8.0	6.8	6.4	8.7

#### Notes for Exhibit 4:

The full Exhibit 4 data set (through August 2008) is available in electronic format in an Excel spreadsheet for students that accompanies this case (see "POSData" tab in the spreadsheet).

The data contained appear in a format normally provided to consumer packaged-goods firms by such data suppliers as Nielsen or Information Resources, Inc (IRI). The cells that are highlighted denote when a national promotion was run by FFD for the given item (e.g., the D32 was promoted November 2006).

"Baseline Volume" is the projected amount of sales volume (in lbs.) that the firm would have sold in the absence of any in-store promotions. The data suppliers develop their own proprietary algorithms to generate this estimate. The data suppliers tend to draw sales data from a subset of all markets and then project to the national level. A 16-oz. package equates to 1 lb. of volume, a 32-oz. package to 2 lbs. of volume, etc.

"Incremental Volume" represents the amount of extra volume generated solely by the promotion.

"TOTAL Volume" represents the actual total sales volume that the firm sold to consumers at the point-of-sale (POS).

"% Store Promoting" represents the percentage of retailers that actually promoted the product in a given month. There are several reasons why "0" does not appear in the months in which there was not a GCP-backed promotion. First, retailers sometimes do not wish to field the promotion when intended by the manufacturer (common industry practice). Thus, the retailers shift the timing of the national promotion either forward or backward in the calendar. Second, retailers often require manufacturers to field a regional promotion in order for the producer to retain shelf space. These regional promotions are usually not planned at corporate headquarters. Rather, they are developed and implemented by Field Sales, which draws upon its own marketing budget to keep the retailer compliant. Third, retailers occasionally take the initiative to feature a product on their own, irrespective of whether they receive funding from the manufacturer. This, however, is not common practice for consumer packaged-goods products.

## Exhibit 4 (continued) September 2006—August 2008 FFD Sales Promotions and Sales Volume

	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08
Dinardo's 32												
Baseline Volume	6,149,247	5,916,877	4,714,455	5,273,163	5,880,256	6,015,069	5,790,358	6,159,845	5,925,618	4,049,961	5,421,901	6,243,334
Incremental Volume	5,239,158	1,360,106	1,242,822	1,219,796	1,386,604	4,637,618	1,314,624	1,351,476	1,244,033	865,583	1,280,591	1,449,687
TOTAL Volume	11,388,405	7,276,783	5,957,277	6,492,959	7,266,860	10,652,688	7,104,982	7,511,320	7,169,651	4,915,545	6,702,492	7,693,022
%Store Promoting	28.4	7.7	8.8	7.7	7.9	25.7	7.6	7.3	7.0	7.1	7.9	7.7
Dinardo's 16												
Baseline Volume	225,421	2,987,134	2,848,641	3,193,952	3,035,149	217,692	3,104,798	3,288,516	3,468,557	3,748,645	3,180,735	2,861,812
Incremental Volume	46,547	712,558	2,649,237	855,823	547,644	47,693	663,969	609,293	746,266	3,958,569	648,749	552,817
TOTAL Volume	271,968	3,699,693	5,497,878	4,049,774	3,582,793	265,385	3,768,768	3,897,810	4,214,823	7,707,214	3,829,484	3,414,629
%Store Promoting	6.9	8.0	31.0	8.9	6.0	7.3	7.1	6.2	7.2	35.2	6.8	6.4
Dinardo's Other												
Baseline Volume	4,170,879	3,678,417	3,501,826	3,503,991	3,626,187	3,804,151	3,802,126	3,724,153	3,870,184	3,571,676	4,039,140	3,567,510
Incremental Volume	891,369	904,071	853,619	655,010	732,423	990,226	716,830	925,705	798,725	813,835	920,039	722,707
TOTAL Volume	5,062,248	4,582,488	4,355,445	4,159,001	4,358,610	4,794,378	4,518,956	4,649,858	4,668,908	4,385,511	4,959,179	4,290,217
%Store Promoting	7.1	8.2	8.1	6.2	6.7	8.7	6.3	8.3	6.9	7.6	7.6	6.8
Natural Meals												
Baseline Volume	3,096,560	3,209,199	2,975,317	2,921,394	3,487,071	3,080,502	3,294,573	3,436,171	3,663,475	3,569,556	3,203,531	3,642,177
Incremental Volume	643,904	580,238	716,408	682,850	925,553	665,441	726,208	873,913	802,834	950,927	610,820	842,494
TOTAL Volume	3,740,464	3,789,437	3,691,725	3,604,245	4,412,624	3,745,943	4,020,781	4,310,084	4,466,310	4,520,483	3,814,351	4,484,671
%Store Promoting	6.9	6.0	8.0	7.8	8.8	7.2	7.3	8.5	7.3	8.9	6.4	7.7