NRM Optimization to Maximize Net Sales: Some principles.

1. **Segment Need States**
   Identify distinct need states within each brand and drive Net Net Net (NNN) for each independently. Shoppers perceive them as separate categories, so they should be managed accordingly.

2. **Evaluate Shelf vs. Secondary Space Uplifts**
   Compare the incremental Net Sales from shelf promotions versus secondary site promotions. If shelf promotions generate more sales but gate fees reduce profitability, reconsider secondary sites. However, some retailers may require gate fees to maintain their overall margin. If secondary space is crucial for sustaining your business with them, it might still be a worthwhile investment.

3. **Optimize Promo Retros**
   - Ensure promo retros maintain retailer margins rather than enhance them.
   - Determine the ideal discount depth by analyzing % NNN uplifts from shelf promotions, for different depths of discount.
   - Establish the optimal frequency of promotions. Over-promoting can erode brand equity and encourage shoppers to wait for discounts, reducing base sales. Balance promotion timing and depth with clear benchmarks.

4. **Implement Strategic Price Increases**

Raising invoice prices for a single retailer is risky if they don't pass the increase to shoppers, as it cuts their margin. A more effective approach is raising the Recommended Retail Price (RRP) across all trade partners, minimizing competitive disadvantages.

5. **Allocate Over Riders Effectively**

Since over riders are agreed at the total portfolio level, allocate them based on each brand's profit contribution rather than using a blanket approach.

Case Study

You work for a personal care manufacturer and have just changed role. Your boss has asked you to look for Net Revenue Management opportunities in the Washing and Bathing P&L to maximise NNN which consists of the following SKUs:

1) MOISTURE HANDWASH 250ML
2) MOISTURE HANDWASH 500ML
3) HAND GEL ALOE 100ML
4) HAND GEL ALOE 50ML
5) BAR SOAP FAMILY x 2 125G
6) BAR SOAP 125G
7) BODY WASH 250 ML
8) BODY WASH 500 ML

You first decide to deep dive into the 2 handwash SKUs to see whether you should be promoting the products from secondary space. You look at historic data and are told that the agreement with the retailer is to use the margin maintenance principle for promotion retros. You obtain the below data regarding past promotional activity. Prices and Sales figures are in USD.

	Base Sales	Shelf Promotion	Promotion from Secondary space
Instore Price SKU 1 / GBP	4	3.5	3.5
Instore Price SKU 2 / GBP	3	2.5	2.5
Vol SKU 1	5670	9889	14111
Vol SKU 2	3995	6000	8000
Invoice Price SKU 1 / GBP	2.1	2.1	2.1
Invoice Price SKU 2 / GBP	1.5	1.5	1.5
Gatefee / GBP			12,000

You also want to make sure is that you don’t just look for opportunities to cut spend out of the P&L but to see if you can drive net sales by increasing volume. To do this you look at the historic promotions that have been run from shelf for the 2 SKUs at different depths. Below is the data you gather:

	SKU 1				SKU 2			
	Base Sales	Shelf Promotion 1	Shelf Promotion 2	Shelf Promotion 3	Base Sales	Shelf Promotion	Shelf Promotion	Shelf Promotion
Instore Price / GBP	4	3.5	3	2.5	3	2.5	2	1.5
Vol	5,670	9,889	12,000	13,000	3,995	6,000	7,000	8,000
Invoice Price / GBP	2.1	2.1	2.1	2.1	1.5	1.5	1.5	1.5

Questions

Q1) How many need states would you divide your washing and bathing portfolio into?

Q2) Do you think it’s worth promoting the products from secondary space?

Q3) Do you think your predecessor has been paying the right promotion retro to the retailer based on margin maintenance principle?

Q4) Is there an opportunity to do deeper promotions?

Solution

Q1) 4 Needstates

When designing the promotion strategy or even when looking to optimize the P&L it would be a mistake to put all the SKUs under one bucket just because they fall under the same brand name. Each of them is a different category in itself and their treatment should be no different from the scenario if each of these need states had been a different brand.

1	2	3	4
Handwash	**Hand Gel/Herbal**	**Bar Soap**	**Body Wash**
MOISTURE HANDWASH 250ML	HAND GEL ALOE 100ML	BAR SOAP FAMILY x 2 125G	BODY WASH 250 ML
MOISTURE HANDWASH 500ML	HAND GEL ALOE 50ML	BAR SOAP 125G	BODY WASH 500 ML

Above are 4 different need states since each would have a separate group of shoppers with a unique usage occasion.

Q2) No.

	Base Sales	Shelf Promotion	Promotion from Secondary space
Instore Price SKU 1 / GBP	4	3.5	3.5
Instore Price SKU 2 / GBP	3	2.5	2.5
Vol SKU 1	5670	9889	14111
Vol SKU 2	3995	6000	8000
Invoice Price SKU 1 / GBP	2.1	2.1	2.1
Invoice Price SKU 2 / GBP	1.5	1.5	1.5
Invoice Sales SKU 1 / GBP	11,907	20,767	29,633
Invoice Sales SKU 2 / GBP	5,993	9,000	12,000
Total Invoice Sales of Need State / GBP	17,900	29,767	41,633
Margin Maintaining promo retros / GBP		4,096	5,704
Gatefee / GBP			12,000
Net Sales of Needstate / GBP	17,900	25,671	23,929
Incremental Net Sales vs Base / GBP		7,771	6,030
Incremental Net Sales vs Shelf promo / GBP			- 1,742
Retro per unit SKU 1 / GBP		0.26	0.26
Retro per unit SKU 2 / GBP		0.25	0.25
Total Retro SKU 1 / GBP		2,596	3,704
Total Retro SKU 2 / GBP		1,500	2,000

You got incremental net sales of £7,771 when running a shelf promotion but when you ran a promotion for the need state from secondary space, although you had more invoice sales, you ended up more than offsetting any incremental impact by the £12k gate fee you paid.

An argument often made here is that we should continue to invest in secondary space because it did result in more invoice sales and those additional shoppers would have a lifetime value which far exceeds the £1,742 net sales "loss" (vs a shelf promotion) in this instance. The problem with this argument in my opinion is that there is no evidence of whether those shoppers so typically tend to repeat purchase in sufficient quantities and for long enough durations. It's just a hypothesis which is not easy to prove. And when you are faced with an unknown, its best to hedge your bets.

There could also be a possibility that the retailers front end margin on your product is low (low being a very relative and subjective term) and without support on total margin through gate fee, the relationship with you does not make economic sense for it.

Suppose the retailer's total margin for the category is 50% on average. But without gate fee investment from your side, they just makes 40% margin off you. In this case, they might deprioritize your business significantly as growing you would mean their margin would get significantly compromised. This may compel you to invest in secondary space even if standalone evaluation of your activation appears to be Net Sales dilutive. If the retailer is actually dependent on giving you secondary space so that your business remains viable for them, then that's actually a good investment structure as far as you are concerned.

Q3) Yes.

Q4) SKU 2: No. Deeper promotions are yielding less net sales

SKU 1: Yes, atleast theoretically. Shelf promotion 2 is yielding more net sales (£729) when promoting at £3 vs when promoting at £3.5 but the incremental amount is quite small so you may decide its not worth it.

	SKU 1				SKU 2			
	Base Sales	Shelf Promotion 1	Shelf Promotion 2	Shelf Promotion 3	Base Sales	Shelf Promotion	Shelf Promotion	Shelf Promotion
Instore Price / GBP	4	3.5	3	2.5	3	2.5	2	1.5
Vol	5,670	9,889	12,000	13,000	3,995	6,000	7,000	8,000
Invoice Price / GBP	2.1	2.1	2.1	2.1	1.5	1.5	1.5	1.5
Invoice Sales / GBP	11,907	20,767	25,200	27,300	5992.5	9000	10500	12000
Margin Maintaining promotion retros / GBP		2,596	6,300	10,238	-	1,500	3,500	6,000
Net Sales of Needstate / GBP	11,907	18,171	18,900	17,063	5,993	7,500	7,000	6,000
Incremental Net Sales vs Base / GBP		6,264	6,993	5,156		1,508	1,008	8
Incremental Net Sales vs Shelf promo / GBP			729	- 1,838			- 500	- 1,000
Retro per unit SKU / GBP		0.26	0.53	0.79		0.25	0.50	0.75
Total Retro SKU / GBP		2,596	6,300	10,238		1,500	3,500	6,000