



EXPAND DEMAND. DRIVING EFFICIENT VOLUME THROUGH CATEGORY MARKETING

A Unique Promotional Marketing Vehicle
to Grow Brand Volume and Loyalty

Introduction: The Efficient Growth Imperative

Consumer Packaged Goods (CPG) manufacturers and retailers are facing a challenging market environment marked by increased competition, slow growth and fragmentation. The industry's top brands are finding it increasingly difficult to grow sales and, for the most part, are losing share within their categories.¹ More product choice and evolving consumer preferences are creating highly selective shoppers who, on average, purchase significantly less than one percent of all UPCs in a store during the course of an entire year.²

Given these challenges, brands and retailers must find efficient solutions to drive volume and revenue and achieve profitable growth. Yet, trade promotion efficiency is a huge and growing problem for the industry. A recent study by Nielsen finds that CPG companies globally spend about one trillion dollars on trade promotions annually.³ However, 67 percent of those promotions actually fail to break even, according to Nielsen, and the problem is only getting worse.

The industry is responding to the problem by pumping more investment into promotions. The CPG industry has distributed significantly more coupons since the recession of 2008-2009, according to Inmar's 2015 Promotion Industry Analysis report. However, although redemptions rose during the recession, the overall redemption trends have been in decline since the early 1990's.⁴

As our industry seeks to discover new, more efficient and effective alternatives to traditional promotions, including standard FSIs, this report examines one such option, called Catalina Category Marketing (CCM). Catalina hopes that the findings provide valuable insights for manufacturers and retailers alike as they seek to address the efficient growth imperative.

'Brands and retailers must find efficient solutions to drive volume and revenue and achieve profitable growth.'

¹ Catalina study report: "A Tough Road to Growth. The 2015 Mid-Year Review How the Top 100 CPG Brands Performed"

² Catalina study report: Engaging the Selective Shopper. Why Today's Consumers Expect Personalization

³ Nielsen Trade Promotion Landscape Analysis. How Do Your Promotions Compare with Best-in-Class?

⁴ Inmar 2015 Promotion Industry Analysis report

CCM is a unique, targeted promotional solution specifically designed to rapidly and efficiently drive brand volume and revenue. It typically targets heavier category and brand buyers and seeks to incent them to buy more—in effect, motivating them to become Super Buyers of the brand by offering cash rewards toward their next shopping trip. (see About CCM, page 10)

This study is based on analysis of 130 CCM campaigns conducted across a wide range of food & beverage and non-food grocery categories and measures the impact of those campaigns on volume and other critical brand performance factors. It also looks at the effect of CCM programs on retail category sales.

The findings indicate that CCM campaigns are highly effective in driving volume for CPG brands, motivating some 20 percent of all targeted shoppers to meet the volume requirements of a CCM program. CCM thus significantly lifts both volume of the promoted product for the brand and overall category sales for the retailer.

As you will see in this study, the data also indicates that CCM campaigns positively impact share of requirements, not only during the campaign, but also in the period following a campaign.

Another significant finding of the Expand Demand study is the degree to which choice drives increased response among shoppers. CCM is designed to give consumers greater choice by allowing them to redeem their rewards against anything they purchase in their next shopping trip. In addition, the study found that shoppers responded in significantly higher numbers when a CCM campaign offered them options in terms of the number of promoted items they purchased for a reward.

‘CCM significantly lifts both volume of the promoted product for the brand and overall category sales for the retailer.’

Key Findings

Consumers Respond to Choice — Response to CCM campaigns increased when shoppers were given greater choice through multi-tiered incentive offers based on the number of items purchased. Response rates among targeted shoppers were 44 percent higher for three-level reward offers compared to one level of rewards.

High Response Rates — On average, 20 percent of shoppers targeted by a CCM campaign responded to the promotion by meeting the offer requirements. A typical redemption rate for a standard FSI is 0.45 percent.

Much Higher Levels of Purchasing — Those who respond purchased an average of nearly 2.5 times the volume of the promoted product compared to their pre-campaign period purchases.

Big Contribution to Brand Sales — On average, responders accounted for 27 percent of brand sales during the campaign period. Those same shoppers accounted for just 11 percent of sales in the pre period.

Increased Post-Campaign Loyalty — Responders purchased 36 percent of their Share of Requirements (SOR) with the promoted product during the 28-day pre period. SOR grew to 56 percent during the campaign and remained elevated at 42 percent in the 28-day period following the campaign. In addition, responders were twice as likely to repurchase the product during the post period as other brand buyers.

Entire Category Growth — Retailers benefit from CCM due to higher overall category sales. On average, total category volume grew 14 percent compared to the pre period, driven by a 63 percent increase in category volume among responders.

WHAT CONSUMERS SAY ABOUT CCM CAMPAIGNS

Focus group discussions with consumers in Indianapolis and suburban Philadelphia highlight why shoppers appreciate Catalina Category Marketing. Respondents feel CCM offers more convenience, savings and freedom of choice than other promotional offers.

Eight focus groups were held with five or six respondents participating in each. To take part, consumers needed to be between 30 and 65 years of age, live with at least one other person, shop on a weekly basis, and have used three or more coupons in the past six months. Most participants were women. Here's what they had to say:

Key Consumer Reactions:

- Perceived CCM to be more convenient
- Believed it provided more choice and control
- Saw the savings as significant

Representative Quotes:

"I like the added savings. They are a great way to stretch your dollar."

"That's a real savings, I can use that."

"That's cash, not a coupon. You don't have to spend it on any specific item."

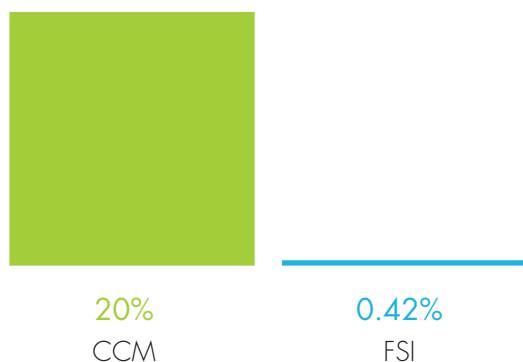
Driving Efficient Brand Volume

An analysis of 130 campaigns across a wide variety of food & beverage and non-food categories demonstrates that CCM programs are highly successful in driving brand volume and sales dollars during a campaign. The program essentially identifies frequent brand and category buyers and incentivizes them to become loyal buyers of the brand.

Figure 1

Unparalleled Response Rates

The response rates among targeted shoppers for a CCM promotion are on average nearly 43 times higher than they are for an FSI.



The study shows that an average of 20 percent of targeted shoppers respond to the campaign by meeting the minimum requirements. Compare that with the response rate for the standard FSI of 0.42 percent (see Figure 1).

During the campaign, responders purchased 137 percent more of the unit volume they purchased during the pre-period and increased their contribution to overall dollar sales of the product by 2.5 times. The contribution from responders grew on average from 11 percent in the pre period to 27 percent during the campaign (see Figures 2 and 3).

Figure 2

Creating Super Buyers to Drive Volume

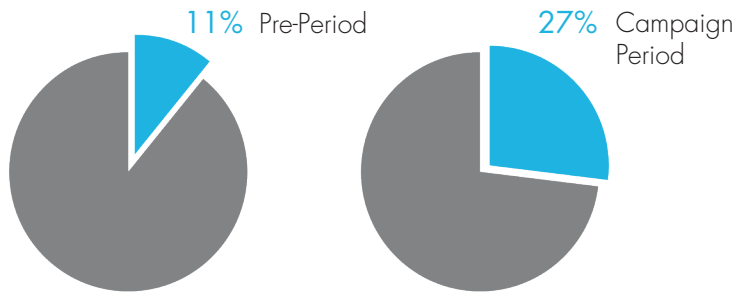
CCM campaigns turn brand and category shoppers into Super Buyers for brands. The average responder bought nearly 2.4 times more of the promoted product during the campaign period vs non-responders, who actually bought less than the pre period during these campaigns.



Figure 3

Making a Major Contribution to Growth

Responders to a CCM campaign dramatically increase their contribution to brand sales. Across all campaigns studied, those who responded to an offer had contributed 11 percent to brand sales during the pre period, but grew that contribution nearly 2.5 times during the campaign, accounting for 27% of all brand sales.



'CCM incentivizes frequent brand and category shoppers to become Buyers of the Brand.'

It's important to note that non-responders, which include all brand buyers who do not meet the minimum requirements for a reward, actually bought far less product, 23 percent less on average, than they did in the pre period. Despite that decline in volume, responding buyers grew total product volume an average of 16 percent across all campaigns.

Consumers Value Choice

The Expand Demand study also revealed that choice has a positive impact on the results of these campaigns. CCM is designed to provide shoppers with a greater sense of choice in how they experience value. Rather than providing a discount or rebate that is limited to savings on the promoted product, CCM programs offer a dollar value in the form of money off on the next shopping trip regardless of what is in the basket. The high response rates discussed elsewhere in this report indicate that shoppers value the freedom that this approach provides.

However, even within the CCM format, consumers tend to respond positively to increased choice. Response rates increase when shoppers are provided with multi-tiered choices offering increasing rewards for different purchase levels (See Figure 4). The overall response rate to CCM campaigns (including shoppers who met the purchase requirements but did not redeem their reward) was 20 percent. However, response rates grew from 16 percent for a single level of purchasing and rewards to 23 percent for a three-tiered campaign.

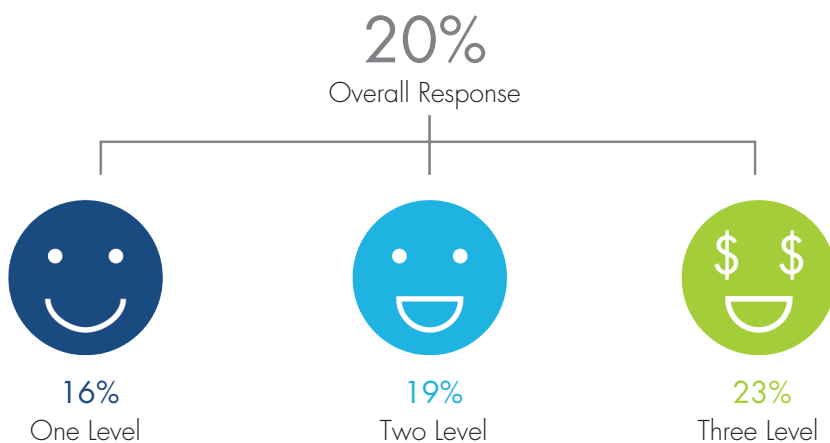
Marketers should explore whether this phenomenon has implications for other aspects of their marketing and promotions.

‘Response rates increase when shoppers are provided with multi-tiered reward choices.’

Figure 4

Choice Drives Response

Consumers respond positively when they have choices. Response rates increased when shoppers were provided with multi-tiered choices offering increasing rewards for different purchase levels.



Post-Campaign Loyalty Boost

Shoppers who buy more during a CCM campaign are far from dormant in the post period. Despite increasing their purchase volume by an average of 2.4 times during these campaigns, responders are still twice as likely to buy in the post period as are other brand buyers. Across all campaigns, 37 percent of responders repurchased the product in the post period, compared to 18 percent of other brand buyers (see Figure 5).

The data also shows a significant increase in share of requirements, a key measure of loyalty, in the post period among shoppers who respond to a CCM campaign. Responders on average fulfilled 36 percent of their share of requirements with the promoted product during the pre period. Not surprisingly, that grew significantly, to 56 percent, during the campaign. However, after the campaign ended, SOR remained elevated compared to the pre period, at 42 percent (see Figure 6).

‘CCM lifts share of requirements both during and after a campaign.’

Figure 5

Responders Repeat Twice as Much Post Campaign

This chart and that of Figure 5 should dispel concerns that CCM campaigns simply “pull volume forward,” resulting in reduced volume among responders in the post period. As shown below, twice as many responders as non-responders repurchased the promoted product during the post period.

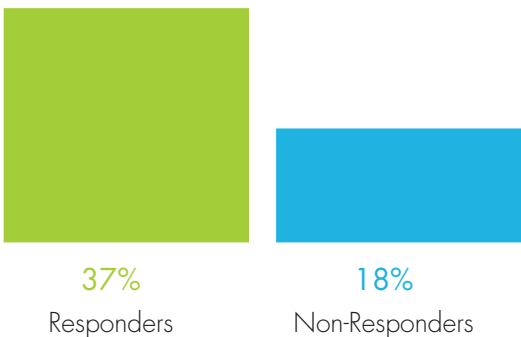


Figure 6

Driving Post-Campaign Loyalty

Share of requirements, a key measure of loyalty, is positively impacted by CCM beyond the campaign period. The average responder’s share of requirements skyrockets from 36 percent during the pre period to 56 percent during the campaign. However, SOR remains elevated (compared to the pre period) even during the weeks following a campaign.



Retailer Benefits

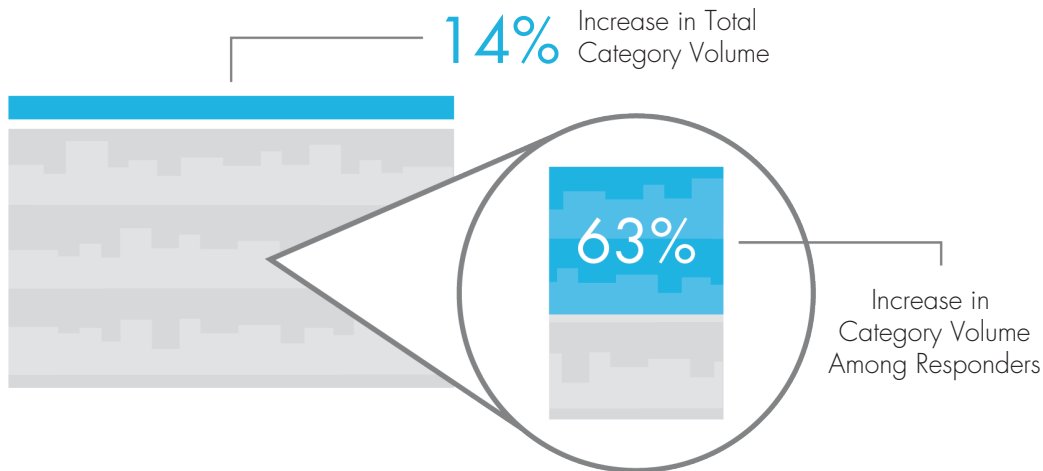
How does the retailer benefit from a CCM campaign? Some may wonder if a CCM campaign simply results in driving sales to a promoted brand from other products within the same category. The results of this study, however, demonstrate that the retailers' overall category sales grow significantly during a campaign period, increasing on average by 14 percent across all of the campaigns analyzed.

This study did not analyze the impact on trip frequency or average basket size among responding buyers, although these are also potential areas of improved shopper performance due to CCM.

Figure 7

CCM Grows Category Sales for Retailers

The impact of a CCM campaign on category volume is significant. On average, responders grow their category volume by 63 percent during a campaign. The result is an overall 14 percent increase in total category volume.



HOW CATALINA CATEGORY MARKETING WORKS

Catalina Category Marketing (CCM) is a unique promotional program solution to efficiently and rapidly drive volume and gain new triers for brands. As this study demonstrates, CCM also increases post-campaign share of requirements among rewarded shoppers and drives overall category volume for retailers.

CCM campaigns utilize Catalina's purchasing behavior insights into approximately 260 million shoppers to target frequent brand and category buyers and incentivize them to buy more during a typical 28-day campaign period.

Unlike most other product promotions, such as standard FSIs, CCM campaigns do not offer a discount or rebate on the purchased item. Instead, they provide dollars off on the next shopping trip regardless of what is in the shopper's basket. Catalina verifies in real-time that a shopper has met the minimum requirements and prints the reward at point of sale. Shoppers can qualify for more than one reward during a campaign and the rewards can then be redeemed on the next shopping trip.



INTRODUCING CCM OMNICHANNEL

CCM has traditionally been promoted at point of sale through the Catalina in-store print media hub. However, with the launch of CCM Omni, targeted brand and category buyers can now also be reached via cross-screen online and mobile advertising campaigns.

CCM Omni meets the right shoppers wherever they are, expanding the overall potential reach to nearly 100 million shoppers who are part of Catalina's mobile and online network. CCM Omni lowers the overall cost of impressions, ensures that targeted shoppers can be reached even before they enter the store, and delivers multiple media impressions to targets to increase response rates.

Methodology

The Expand Demand study analyzes the results of 130 Catalina Category Marketing campaigns in the Catalina network during 2015. These campaigns in total rewarded more than 20.5 million shoppers with over \$38.3 million.

Responders are defined as those shoppers who purchased at least the minimum units of a promoted product required to qualify for a CCM reward. Non-responders are defined as shoppers who purchased the promoted product, but did not meet minimum volume requirements to qualify for a reward.

For each campaign, the study looked at three distinct time periods to gain insights into changes in unit volume, sales and other shopper behavior. These include the pre period immediately preceding each campaign, the campaign period itself, and the post period. All three periods include the same number of days, based on the length of the campaign period.

Category volume includes all products sold within the same category, as defined by IRI definitions, as the promoted products.

All data and analysis from this study cover only those stores participating in each CCM campaign.

Conclusion

At a time when CPG brands and retailers are facing greater competitive pressure and a more challenging environment for growth, marketers need dependable and efficient solutions to grow volume and drive increased share of requirements.

While manufacturers and retailers have many choices for how they attempt to deliver these results, CCM is a proven and powerful solution for efficient growth, consistently creating super brand buyers who drive volume and revenue over the campaign period. For the retailer, these responding shoppers not only grow brand sales, they increase overall category volume during the campaign.

This study also finds that the benefits to promoted brands extend beyond the campaign period. Among responding shoppers who qualify for rewards, category share of requirements for a promoted product increase both during the campaign and in the 4 weeks following a promotion.

About Catalina

Catalina's personalized digital media drives lift and loyalty for the world's leading CPG retailers and brands. Catalina personalizes the consumer's path to purchase through mobile, online and in-store networks powered by the world's largest shopper history database. Catalina is based in St. Petersburg, FL, with operations in the United States, Europe and Japan. To learn more, please visit www.catalinamarketing.com or follow us on Twitter @catalina.

If you're interested in learning more about **Catalina Category Marketing** and how Catalina can help you acquire, maximize, and retain loyal, high-value consumers, call 1-877-210-1917.

CCM MYTH BUSTING

Myth #1: CCM campaigns pull volume forward and have little sustainable impact on the brand.

Fact: Responders to CCM campaigns are proven to have higher repurchase rates in the post period than other brand product shoppers during the same period. Thirty-seven percent of responders repurchased the product in the post period versus only 18 percent of all other brand product buyers.

Myth #2: CCM campaigns do little to drive loyalty.

Fact: Share of requirement (SOR) of the shopper's category needs is widely considered a strong measure of loyalty. Average SOR among responders increased dramatically, by 56%, during the campaign period. However, it also remained elevated in the post period, averaging 17 percent higher than it was in the pre period.

Myth #3: CCM campaigns do not impact overall category volume for retailers.

Fact: Category volume increases 63 percent during the campaign period among qualifiers of CCM rewards. This results in a 14 percent increase in total category volume.

