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Marketing's hidden treasure: Better CPE can unlock millions to fuel growth

Overlooked and often forgotten, consumer promotions and engagement (CPE) can be a major source of revenues.

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Planning, tracking, and optimizing advertising and trade spend has become table stakes for marketers at many consumer-goods companies. Despite those advances, consumer promotions and engagement (CPE) remains something of a forgotten area of marketing spend.

CPE, which includes in-store consumer activation and out-of-store engagement efforts, has too often been overlooked and undermanaged (see sidebar). As the chief marketing officer of one consumer-goods company put it, "CPE is where all the spend secrets are buried." That's a problem. When one global food manufacturer added everything up, it found that CPE constituted 25 percent of its total marketing spend. But at a US packaged-food company, it accounted for 70 percent of the overall budget.

Optimizing CPE, in fact, can help companies realize up to 10 to 30 percent savings in marketing spend, which can be reinvested to fund growth initiatives. For one large global packaged-goods company, this translated into more than $150 million in savings. [1] Improving CPE can also drive better awareness for new products, improve consumer engagement and loyalty, and supercharge other advertising and trade efforts.

There are several reasons why CPE doesn't get the right kind of attention. Many organizations assume it represents an insignificant share of the marketing budget, or they simply don't know what they spend money on, or how much they spend. Often they just find it impossible to untangle and classify the various spend components. For example, shopper-

What is consumer promotion and engagement (CPE)?

CPE has many different labels. Some terms that are used to describe it include below-the-line (BTL), shopper marketing, value-added promotions, and consumer promotions spend.

What is included in CPE?

CPE is distinct from advertising, media, and trade spend, but it is often used in conjunction with them. It includes in-store consumer activation, out-of-store consumer engagement, and any supporting production or execution costs, such as artwork and creative, agency management, distribution, or tracking fees. CPE can be delivered through either digital or nondigital channels.

In-store consumer-activation examples

Point-of-sale (POS) signs, point-of-purchase (POP) displays/fixtures, coupons and rewards delivered through print, digital, mobile shopping apps, etc., in-store sampling, sweepstakes, gifts with purchase (in or on the package, at checkout or via mail—all redeemable with purchase), and brand or product-demonstration activities.

Out-of-store consumer-engagement examples

Sponsorships (product licensing or cobranding); event sampling or direct-to-consumer (D2C) mailings via social media, e-tailer, or subscription; public relations activity (endorsements, press releases, etc.).

marketing campaigns, which typically involve a wide range of CPE activity, from posters and samples to fixtures and demonstrations, are time consuming and cumbersome to log. Alarmingly, it's not uncommon to see 80 to 90 percent of shopper marketing and in-store activity unclassified and assigned to the "other" spend category.

The 5 simple rules to get smarter about your CPE

1. Put consumers first

Use CPE to influence your consumers

Although this sounds logical and even redundant, it's rare to see CPE design start with asking, "Does this CPE help give my consumers what they want, when they want it?" Most organizations start instead with"smash and grab" questions like "Which CPE can help hit a short-term sales target?" or "How can I use my surplus CPE budget to avoid losing it next year?" Truly effective CPE involves gaining a deep understanding of how consumers shop, and developing programs to influence decision making at the critical junctures of their journey (see exhibit).

Recent McKinsey research has revealed that it's getting easier to intercept and switch consumers when they are initially considering a purchase. Some 87 percent of consumers shop around before buying, and 58 percent are willing to switch away from their favorite brands.[2] One nutrition company uses CPE to influence the consumer decision journey, using a mix of CPE activities for each touchpoint, such as events with on-site sampling to create brand awareness, digital coupons for consumers who have reviewed supplements online, and cash back for consumers who have made a purchase to drive repeat buys.

Personalize and push your limits

Too often, consumer companies favor mass CPE approaches, such as blasting out millions of coupons to an array of consumers. On the face of it, this approach has seemingly low cost with wide reach, but when you factor in the full cost of production—design, print, transport, and distribution plus the internal labor and opportunity costs to produce them—they can be costly. And at an aggregate level, coupons have less than 1 percent conversion.[3]

We already know that personalization can reduce acquisition costs by as much as 50 percent, lift revenues by 5 to 15 percent, and increase the efficiency of marketing spend by 10 to 30 percent, and those benefits can be applied to CPE activities. CPGs have multiple sources of data they can use to increasingly target certain types of CPE, particularly sampling, coupons, and rewards. For example, a consumer company developed a geospatial mapping model using zip codes, allowing it to tailor campaigns to local demographics such as moms with kids. Companies are already experimenting with using predictive analytics to tailor circulars to prospective customers.[4]

Some new vendors have developed an approach where they are paid for performance. For example, emerging mobile platforms like Ibotta build dynamic offer segmentations and only charge brands for sales conversions—if redemption is low, there are no costs. For consumer companies, the result is a more effective and potentially less expensive alternative to traditional CPE.

2. Stay lean

Keep it simple

Effective CPE is based on being clear about objectives. For example, in-store displays and fixtures can drive awareness and trial. But if used primarily to build brand equity, displays typically won't deliver.

This clarity also helps marketers avoid overthinking how much choice consumers actually need. One leading company provided several variations of a sweepstakes offer and launched additional variations for different retailers and store formats—ultimately confusing consumers, who had to wrestle with calculations to figure out which offer was best for them and which store had the best offer. In that

Exhibit 1 **CPE tools are effective at each part of the Consumer Decision Journey**

Out-of-store consumer engagement
- Public relations activity (e.g. blogs / reviews/ social)
- Product licensing (or co-branding)

In-store consumer activation
- Coupons and rewards
- In-store POP/POS
- In-store sampling
- Sweepstakes
- Gifts with purchase

Out-of-store consumer engagement
- Sponsorships
- Event sampling
- Public relations activity (e.g. endorsements, press releases,
- Social network/ Viral videos)
- Product licensing (or co-branding)

In-store consumer activation
- In-store POP/POS
- Brand or product demonstration activities
- Public relations activity

Out-of-store consumer engagement
- Sponsorships
- Product licensing
- Public relations

SOURCE: McKinsey CPG Marketing & Sales Practice

same spirit, we often advise marketers to limit displays with "bells and whistles" such as holograms, moving parts, lighting, or sound effects—because the ROI often doesn't justify the investment.

Marketers can also get tired of CPE activities and campaigns faster than consumers do, so they refresh messages and invest in bespoke creative and fixtures too quickly. Leading companies create a standard

CPE catalog and stick to it, reusing and recycling displays and limiting the number of variations on offer.

Layer with caution

It is tempting to layer many tactics together to maximize reach and generate halo effects. But overdoing it can quickly erode margins and ROI. One cautionary example: a consumer-goods company had a tie-in with a Hollywood blockbuster, but ended up combining new packaging, in-store displays, and a giveaway toy.

The resulting CPE campaign became so expensive that the company ended up paying their customers to buy their products.

It is important to stack reinforcing CPE efforts selectively by choosing complementary CPE activities and running breakeven analysis before (and after) campaigns.

3. Stick to the facts

Insist on consistency

Developing a consistent metric across CPE categories can be challenging. Overlaps in taxonomy, multiple contributors to spend items, and haphazard spending habits mean there is often poor transparency and limited consistency in how CPE spend is classified. As a result, many marketing leaders rely on gut feeling or an inconsistent set of metrics to allocate spending across the CPE portfolio.

The best marketers address this by creating a consistent taxonomy and reclassify profit-and-loss (P&L) codes to reflect the changes. For example, leading consumer companies increasingly prohibit the use of a shopper-marketing-spend line item, enforcing greater clarity on the actual costs associated with individual components like printing and production of posters and displays, sampling materials and labor, creative, and packaging design.

Assess cross-cutting effectiveness

Introducing apples-to-apples measures helps make trade-off decisions across three levels: comparing individual CPE activities, comparing clusters of CPE (in-store vs. out-of-store engagement), and looking across campaigns (back- to-school vs. Christmas).

Leading consumer companies take it a step further and use methods that cut across CPE and other marketing spend. Econometric and attribution models, which are used for media and advertising, can be powerful tools to evaluate spend within the CPE portfolio. But integrating CPE can be challenging, especially when it comes to measuring smaller spend items and separating out assets in promotion-heavy environments. Techniques such as Reach-Cost-Quality (RCQ) can provide practical ways to address this issue by allowing for comparisons across the whole marketing portfolio in an integrated way, regardless of investment size, and across individual spend items and campaigns. They also provide a common measure against other non-CPE marketing spend.[5]

4. Use what you learn

Create a single version of the truth

Every organization has internal myths about which CPE programs work well. But, there is often no documented, fact-based understanding of why some work better than others. One leading consumer company releases new CPE campaigns almost every month, adding new gifts with purchase and sweepstakes to every pack because they have always done it that way.

CPE leaders codify best practices and learnings (how-to guidance on designing, deploying, and measuring CPE) in a living playbook. They lay out when to use each CPE activity, which combinations complement each other, and which can erode value—generating at least a 10 to 20 percent increase in demand-side spending. Marketing leaders are disciplined about codifying learnings into playbooks, making it part of everyday practice as quickly as possible. To make sure that marketers comply, these companies link individual performance to compliance with the playbooks and make it easy to learn anywhere, anytime, through e-learning platforms.

Learn, refresh (then repeat)

Marketing leaders test and learn; they don't play it safe by relying on a narrow range of traditional approaches. Instead, they refresh the playbook continually by updating it with their own experiences, and observing how others deploy CPE for inspiration. This doesn't have to cost a lot: they use sampling partners to observe shoppers in-store and key-account managers to interview retail partners on what's new. They create incentives for their marketing team to share personal in-store experiences. Leading consumer companies are also active in working with digital/mobile start-ups or retailers on in-store innovations such as mobile coupons or new shelf technology to know what's coming next.

5. Elevate CPE

Clarify accountabilities

Multiple departments often own small slices of the CPE budget, making coordination difficult for senior leaders. For example, a leading food and beverage company uncovered a fractured set of activities: one brand team had signed a contract for a shopper promotion program, the sales team had sold a feature and display, and the key account manager had commissioned a different promotional program—all at the same time.

To stop this kind of disjointed effort requires assigning clear responsibilities for every CPE spend line. Some companies go further and concentrate accountability across similar groups of CPE (in-store activation, out-of-store activation), or they centralize CPE budget across a small group of executives. At other leading companies, a head-of-integrated-marketing role has emerged. This person is an executive responsible for ensuring that advertising, trade, and CPE are all managed in a holistic way. Our research and experience show that optimizing governance can lead to 5 to 10 percent savings in the immediate term.

In addition to integrating the CPE group with the internal organization, it's also important to integrate with the external ecosystem of retailers, agency partners, suppliers and vendors. Establishing clear CPE guidelines with aligned targets, deliverables, and success metrics provides a necessary foundation for all ecosystem players. Some companies create incentives to reward external partners for becoming more adept at working together within a networked system and building capabilities to better understand each provider's areas of expertise.[6]

Take steps to bring CPE into the marketing fold

While it's still unusual to see CPE truly part of marketing and other trade programs, introducing a stable budgeting process can help address the issue. Many consumer companies use processes like zero-based budgeting (ZBB)[7] to systematically report and adjust spend, which also helps set integrated targets, monitor cross-function spend, and provide regular reporting to relevant marketing and business-unit leaders.

Approaches like ZBB help instill a mind-set of transparency in the organization. It is bolstered by monthly review meetings that track spend, identify variations in the budget, and then deploy multifunctional SWAT teams to understand root causes for any spend deviations and define remediating actions. This integrated budget process is often a good springboard to other critical integrated processes, such as joint campaign planning.

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Marketing executives at consumer-goods companies ought to be asking themselves what their CPE spend is and how to get more from it. The potential benefit is huge and can turn CPE into a significant source of dollars to fund growth priorities across the business. ■

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[1] A proven path to growth is finding savings in one part of the business and redirecting those funds toward promising opportunities. We call this the Investor model of growth. Kabir Ahuja, Jesko Perrey, and Liz Hilton Segel, Invest, Create, Perform: Mastering the three dimensions of growth in the digital age, McKinsey & Company, Marketing and Sales, March 2017.

[2] David Court, Dave Elzinga, Bo Finneman, and Jesko Perrey, "The new battleground for marketing-led growth," McKinsey Quarterly, February 2017

[3] Inmar 2016 report, food and non-food coupon distribution. In 2015, 321 billion coupons were distributed in the US, of which only 2.5 billion were redeemed—less than 1 percent.

[4] Sarah Nassauer, "Why you won't stop getting junk mail," The Wall Street Journal, January 11, 2018.

[5] Reach-Cost-Quality is a proprietary McKinsey approach that quantifies the effectiveness of spend through reach and cost measurement, weighted by a quality score to reflect the relative impact of sales or brand effects.

[6] For more on building a marketing organization for growth refer to article by Raphael Buck, Biljana Cvetanovski, Alex Harper, and Björn Timelin, "Building a marketing organization that drives growth today," McKinsey Insights, August 2017.

[7] Kyle Hawke, Matt Jochim, Carey Mignerey, and Allison Watson, "The truth about zero-based budgeting: ZBB for consumer-goods players," McKinsey insights, April 2017.

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