# In-Store Promotions: Deductions and Surprises

By Anthony Raissen

It's a well-known fact that smart entrepreneurs learn more from their failures than their successes, and the key message is to make every experience a learning experience. There is, however, no doubt that the best strategy is to learn from someone else's mistakes, so you can minimize your losses and get on with the business of being successful.

When it comes to retail distribution and sales, there are countless mistakes to be made, but let's focus on one of the most common problems I've seen for both startups, as well as established companies: running out of cash flow.

No matter how lucrative things may appear, the cost of having products in retail distribution is high — but when it's done correctly, there is a lot of money to be made. A great strategy to drive sales for both retailers and manufacturers is the use of in-store promotions. The long-term benefits are increased sales and profitability. In the short term, however, there can be a large impact on cash flow.

In-store promotions target consumers when they are in the shopping environment, giving retailers the ability to showcase your product directly to the consumer, as opposed to using traditional media (print, radio, TV and Web). The potential for a sale during a promotion is exponentially increased to the point that product movement can triple or quadruple. The downside is retailers know how valuable these promotions are and make them very costly.

Promotions are typically accounted for in the following manner:

- A retailer charges the manufacturer a fixed percentage (typically 8 percent to 12 percent) for co-op advertising which covers the cost of the store advertisement in circulars and the cost of shelf tags promoting the event
- There may be additional charges depending on the type of promotion — this is given as an allowance by the manufacturer initially and will be taken as a deduction against future purchases by the retailer

One of the most effective promotional vehicles available for introducing a product to new consumers (especially if it is a consumable product) is a "freebate." The premise is that the consumer receives a rebate equal to the purchase price of the product when he or she makes the purchase and then submits the rebate for a refund of the purchase price, effectively making the purchase "free." This is a costly program, but when planned for and executed correctly, it has the power to launch and build a brand.

The problem with the above scenario is that manufacturers often make the following mistakes:

- They don't budget sufficiently for the co-op advertising allowance
- They don't budget sufficiently for the cost of the rebate redemptions
- They "forget" to plan for future deductions and the cash flow impact

The objective is to keep adequate cash reserves to fund these programs. The retailers holds all the cards — they don't wait to get paid for the promotion, but rather keep a reserve on hold to cover them for the manufacturer's costs, especially if the manufacturer tries to back out of the deal after the promotion has run.

I am sure the question you are asking yourself right now is, "How can the manufacturer be so foolish not to budget and set aside the funds?" The answer is that ego and over-optimism often cloud the brain. Manufacturers rely on their own spreadsheets and unrealistic and uneducated assumptions and forecasts. I have learned to tell clients not to make wildlyoptimistic sales forecasts, but rather to forecast based on industry norms and actual sales.

In today's environment of quick access to information, it is easy to do your homework and avoid the costly and often fatal mistakes others have made. Wise people admit their mistakes easily and adapt to learning from others. Wise people can become great entrepreneurs. ■

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