DECODING FMCG PRICE AND PROMOTION TRENDS IN KSA & UAE
PATHWAY TO EFFICIENT REVENUE MANAGEMENT
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PRICING REALITY AND THE CONSEQUENCES

The retail environment in KSA and UAE has been somewhat challenging in recent years, as these markets underwent significant changes, including the implementation of sin tax and value-added-tax (VAT), as well as progressive consumer price increases. These changes have led to a new market reality, putting pressure on fast-moving consumer goods (FMCG) volumes, which are down by 3.2% and 9.5% in UAE and KSA respectively, on MAT Q2 from 2017. As a result, manufacturers and retailers have been aggressively tapping into promotions to compensate for their sales losses and maintain their market share in an ever-increasing competitive environment.

Today, the total sales of goods sold through discounts and special offers has reached 47% of total volume sales in the UAE (up 2.5 percentage points from 2017). Given the upsurge in promotional activities during the past two years, retailers and manufacturers have seen their margin taking a hit, causing a direct impact on their ability to re-invest in their respective categories.

For markets that have been enjoying a decade of double digit growth, it has been a challenge for manufacturers and retailers to adapt quickly to this new competitive intensity. The overbidding war on promotion has led companies to take quick, short term, decisions in order to defend their position – without much of a strategic framework around driving the biggest value out of their price and promo activities. The results are unsettling: 84% of promotions that took place in KSA and UAE in 2017/18 did not break even!

In this report, Nielsen examines past and current price and promotion trends and the impact those trends have had on the market over the last two years. The report delves into aggregated findings from more than 500 advanced price and promotion studies leveraging multi-regression-based modeling with actual store-level sales data. By studying shoppers’ actual reactions to past promotions, the changes in the regular price and the actions of competitors, it is possible to achieve better results and improve the overall market performance with the same resources. Pricing is the only element of the marketing mix that produces revenue directly, while all other elements are a cost. It is hence critical that retailers and manufacturers continue to develop a strong revenue management framework to support sales and protect their margins in the long term.
THE ERA OF PRICE CHANGES

Along with the different changes that took place in the retail environment in KSA & UAE, shoppers have become much more price sensitive. In 2018, 70% shoppers claim to be highly price aware. This was also revealed in our studies: price elasticity has reached record points for both KSA & UAE, leading these two countries to the very top of the most price sensitive markets globally.

GLOBAL | REGULAR PRICE ELASTICITY | 2017-18

As a result to this increasing price sensitivity, manufacturers and retailers have entered progressively an overbidding war on promotions, across categories. The promo pressure has increased steadily, quarter on quarter, during the past two years reaching a mind boggling 47% of total sales in the UAE in MAT June 2018 (up 2.5 percentage points from 2017) – with an all time high of 49.4% in Q4 2017. While we observe a mild softening of the trend in Q2 and Q3 2018, the FMCG promo pressure remained beyond 47%. Drug is holding the lion’s share with 51% of volume sold on deal (versus 39% for Food).

UAE | FMCG | % VOLUME SOLD ON DEAL | 2018
PROMO RHYTHM IN THE MARKET

The correlation between the evolution of promoted sales and the total sales of a category is remarkable. There has not been any category which was able to drive value growth without increasing their promoted sales. In fact, categories that increased their promoted sales (concentrated juices, cheese, snacks, cooking oil) are those which showed the biggest sales growth. Similarly, categories like skin care and toilet soap, which reduced their promoted sales, have taken a direct hit on their total sales.

Following the implementation of sin tax in 2017 on carbonated soft drinks, most manufacturers have relied heavily on promotions in the second half of 2017 to help soften the price increase impact. Now that the promo pressure is released (and taking into account the full impact of the price change in the first half of 2018), the effect on the category sales is inevitable. In addition, some categories (such as diapers, juices cartons, shampoos) have entered a promo spiral, that is increasing promo sales but still dropping total sales. These categories have to quickly react in order to avoid wasting all the value previously established. Affordability might well continue to be the buzz word, but promotions will not solve all problems.

Promo sales and total sales are strongly correlated. Although some categories have entered a promo spiral by investing in promotions without any category growth, which is pure loss.
CHANGE IN PROMO STRATEGY

Interestingly, while the promo pressure has intensified, we have also observed a drastic change in promo tactics. Special packs have left the space for pure cash discounts (temporary price reductions) which now account for 64% of all promotions. This new promo tactic trend is visible across both Food & Drug categories - with very similar ratio (63% and 64% respectively for Food and Drug).

64% of promotions are done through Temporary Price Reductions

Now, the million dollar question: did it even work? The efficiency of a promotion is measured by dividing the incremental sales generated by the total promoted sales (i.e. part of the total promoted sales would have been done in anyways and are hence not incremental). Based on Nielsen global benchmarks, a promotion is said to break even if its efficiency reaches 50% (or more). Out of 500+ SKU’s measured in 2017/18, only a shocking 16% of them were breaking the 50% efficiency threshold. In other words, in UAE & KSA, 84% of promotions conducted in 2017-2018 did not break even! Compared to the global benchmark (67% of global promotions do not break even), KSA and UAE still have a long way to go.

The market is leaving money on the table…84% of promotions did not break even in KSA & UAE!
DEPTCH OR FREQUENCY?

What are these 16% of efficient promotions doing differently? What contributed to the success? This study revealed that the overall efficiency of promotions was increasing with their depth, up to a certain point. Promotions with a 30 to 40% depth were the most efficient ones, after which the level of efficiency would drop. It was also revealed that 38% of all SKUs which operated a 30-40% depth were breaking even, as opposed to 12% in the 10-20% depth bucket.

The story becomes even clearer when comparing the top performing promotions (efficiency higher than 80%) versus all others: efficient promotions were banking on high depth (30%), but limited frequency (12%).

### UAE & KSA | EFFICIENCY BUCKETS | 2017-2018

<table>
<thead>
<tr>
<th>Promotion Efficiency Buckets</th>
<th>Avg Frequency</th>
<th>Avg Depth of Discount</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-80</td>
<td>19%</td>
<td>19%</td>
</tr>
<tr>
<td>80+</td>
<td>12%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Successful promotions were focused on depth rather than frequency.

BUT, ONE SIZE DOES NOT FIT ALL!

Every product has its own regular and promo price elasticity which should guide the pricing strategy of each of these items. The regular price elasticity is the relationship between the price and the volume of a given SKU. The more elastic the item, the more it will react negatively to a price change. Similarly, the promoted elasticity is the relationship between a price discount and the volume upsize it offers. The higher the promo elasticity, the higher the volume lift with a given price discount. Bringing these two concepts together helps refine the strategy for each item, as we will see in the next section.

Price increase: +1% → Sales
Volume -2%

Price Elasticity -2.0

100 UNITS

98 UNITS

$
PROMOTING THE RIGHT SKUs

Bringing the concepts of price and promo elasticities together helps make educated decisions on the strategy to follow for each SKU (Every Day Low Price, High-Low etc.) Mapping the key SKUs studied on the revenue management decision grid clearly indicates that one strategy does not fit all, and that each SKU should be treated individually. And this undoubtedly is not the case practiced at the moment: half of the 20% deepest discounted SKUs had a very low promoted elasticity! In other words, the market was heavily promoting SKUs that did not provide decent uplifts to the brand and the category. This is evidently a source of waste which could have been managed better.

UAE & KSA | ITEM ELASTICITY AND PROMO DEPTH | 2017-2018

Similar insights were found regarding the frequency of promotions. When ranking all analyzed SKU’s from least to most elastic, it was revealed that the most elastic items were the least frequently promoted. This is counter intuitive, and again represents another source of waste which could have been avoided providing the market had an overarching framework to manage its promotions holistically instead of responding quickly to competition without the backing of data and scientific rational.

UAE & KSA | ITEM ELASTICITY AND PROMO FREQUENCY | 2017-2018
8 STEPS APPROACH TO EFFECTIVE REVENUE MANAGEMENT

There is no unique and versatile formula for efficient pricing. Each country, category, brand, SKU and channel will have its own truth. However, it is possible to adopt a more structured approach towards optimizing its revenue management. It begins by adopting the following 8 steps to guide the decision making process:

1. Set your price architecture and incentive curves
2. Use elasticity to guide your pricing strategy
3. Fix SKU position in your portfolio
4. Understand price thresholds which should not be crossed
5. Plan optimal depth and adequate promo mechanics
6. Plan optimal frequency
7. Simulate scenarios before execution
8. It’s all about granularity - treat every SKU separately
Revenue Management Optimization

STEPS 1, 2 & 3

1. Set your price architecture and incentive curves
2. Use elasticity to guide your pricing strategy
3. Fix SKU position in your portfolio

You would most likely already understand in which price segment your brand should be playing. Be sure to use incentive curves to hit the price points which encourage shoppers to buy larger packs (and compare how this incentive relates to competition). Your price architecture should set you up for success.

Use price elasticity to determine the impact of price changes on each item. Leverage cross-elasticities to forecast volume movements if your competitors follow and/or if your entire range follows the price change.

Take advantage of the low elastic item to over index them versus your range or other products in the category/segment. Similarly, leverage highly elastic items to hit under-indexed price points which will boost your volume.

Price elasticities are the foundation of Revenue Management. They help quantify volume movement and support educated decisions and planning.

<table>
<thead>
<tr>
<th>SKU 1</th>
<th>SKU 2</th>
<th>SKU 3</th>
<th>SKU 4</th>
<th>SKU 5</th>
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</table>

REGULAR PRICE ELASTICITY

CROSS PRICE ELASTICITY
Revenue Management Optimization

STEPS 4, 5 & 6

4. Understand price thresholds which should not be crossed
5. Plan optimal depth and adequate promo mechanics
6. Plan optimal frequency

The sales-price relationship is not always linear: Sometimes a slight increase in price can lead to catastrophic effect on sales. This usually happens when an “emotional price point” threshold is crossed. Be aware of the different thresholds of your products when deciding your future price changes.

The optimal depth of discount is defined by two elements: promo elasticity (for Temporary Price Reductions) and promo mechanic sales uplifts (for special packs, displays and feature). It’s only by having full clarity on these two elements that one can effectively plan its optimal depth. Bringing together the profit and revenue curves helps plan the optimal depth depending on the desired outcome (share gain or profit).

The same holds true for the optimal frequency – where measuring the volume lifts across a series of scenarios helps refine an optimum point.

The effectiveness of your promotional campaign will depend on your ability to correctly define these variables.

The effectiveness of promo mechanics vary greatly across SKUs and sales channels

The Price Factor: Seven Steps to Efficient Pricing and Promo Strategy
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Revenue Management Optimization

STEPS 7 & 8

4. Simulate scenarios before execution
5. It’s all about granularity - treat every SKU separately

Once you are clear on the different price elasticities, the interactions within your portfolio and against your competitors, the emotional points which should not be crossed, and which promo mechanics to use, it is then time to create different scenarios and simulate the potential outcomes of different strategies.

“What if” scenarios will help prepare you for any market condition changes, enable you to take educated decisions in whatever circumstances and in choosing the option which will help you drive the biggest outcomes for your brands. No more waste. No more quick gut feel calls to respond to a competitor’s move. You’ll be well prepared.

McKinsey recently published a study which demonstrated that winning companies (i.e. companies that were able to grow share) were those that used price elasticities to the most granular level and therefore able to devise strong strategies based on the finest details, taking advantage of each SKU, channel and geography’s opportunities. Clearly, high level elasticities are no longer sufficient to win in the market place.

Granularity is the key: it is no longer sufficient to only look at elasticity at category/national level to win in the market place

LEVEL OF PRICE ELASTICITY MEASURED | % OF COMPANIES

<table>
<thead>
<tr>
<th>Level</th>
<th>Winning companies</th>
<th>Others</th>
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<td>SKU</td>
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</tbody>
</table>

NIELSEN SOLUTIONS

NIELSEN PROMO SCANTRACK

Nielsen Promo Scantrack allows you to study precise trends of promo sales in categories based on weekly data from Nielsen Scantrack base, collected at the store level. With the help of this data you can:

• know how much sales are done via promo at the level of the entire category and at the level of specific SKUs of your portfolio and portfolio of your competitors;
• find out the actual depth of the discount on the shelf for your products and products of your competitors;
• trace the distribution of sales at a discount and promo packages for each SKU in category;
• track the promo strategies of major players – in which period and through which channels they have promotions.

The solution is based on the classical Nielsen retail audit of the channels of modern trade (Nielsen Scantrack). As part of Promo Scantrack the facts about sales with the division into regular and promo sales (discount or promo packs) are added to the Scantrack base.

NIELSEN PRICE AND PROMOTION

Nielsen Price and Promotion suite is ad hoc solution that helps understand how your regular price, temporary price reductions and non-price promotions as well as the same indicators of your competitors impact your sales. The solution will find the right answers for numerous questions including:

• How sensitive is my product to its own and competitors’ price changes?
• Should I decrease my everyday price or make more promotions to stay competitive?
• What types of promotions are more effective?
• How to improve ROI from my in-store activities?

Only Nielsen has capacity to conduct end-to-end Price and Promotion analysis using retail audit data and proprietary modeling methodology. Precise regression model based on thousands of store/week level sales data points enables calculation of promo and regular price elasticities for each SKU on a channel level as well as sales decomposition of different promotion mechanics to estimate their efficiency.
**NIELSEN PRICING INSIGHTS**

Pricing Insights solution allows retailers to increase their sales and profits by finding the key products and identifying the optimal prices for them in regard to the market and competitors. The solution helps to answer the following questions:

- Which items from the list of top sellers in the market are price sensitive and can be defined as KVIs (key value item)?
- Which KVIs are sold at higher price compared to the market, and which KVI’s should be reduced in price to increase sales?
- For which positions can you raise the price without losing sales in order to increase company profit?
- What pricing strategy should you choose for each category or group of SKUs?

The study is based on a comparison of the three main parameters on SKU level: price elasticity, price indices and sales. Each of the parameters is calculated on the basis of historical observations in a chain in comparison with the key competitors on the given geography.

Price indices and sales volumes are calculated based on the data of retail audit of cooperation chains. Our regression model that is based on data of thousands stores which we receive on a weekly basis is used to calculate the elasticity. It allows us to calculate the regular and promo prices of specific SKUs at the channel level.

**NIELSEN MARKETING MIX MODELLING**

Marketing Mix Modelling is a solution that helps evaluate return on investment for all your marketing activities by measuring the impact of each sales driver in isolation from others. This way, you get to know which part of your marketing portfolio works, and which one is a waste of money. Marketing Mix Model regression covers both ATL and BTL as well as independent factors like seasonality, GDP, distribution, competitors etc.

Nielsen methodology in Marketing Mix Modelling comprises of two steps. As a first step, we analyze in-store drivers such as price, promotional activities, displays on a weekly basis. As the second step, we model market drivers – the ones that have similar influence across stores, e.g. media, season, holidays, competitive media. Modeling results serve as inputs for the user-friendly simulator which allows to plan and optimize future marketing investments.

*Nielsen Pricing Insights solution will be only available in KSA and UAE in early Q2 2019*
SELL ON
WITH CONNECTED SOLUTIONS FOR SALES EFFECTIVENESS

ON TARGET  ON SHELF  ON PRICE  ON THE MARK  ON STRATEGY

THE FASTEST PATH TO GROWTH, FROM STORE TO SHOPPER
ABOUT NIELSEN

Nielsen Holdings plc (NYSE: NLSN) is a global measurement and data analytics company that provides the most complete and trusted view available of consumers and markets worldwide. Our approach marries proprietary Nielsen data with other data sources to help clients around the world understand what’s happening now, what’s happening next, and how to best act on this knowledge. For more than 90 years Nielsen has provided data and analytics based on scientific rigor and innovation, continually developing new ways to answer the most important questions facing the media, advertising, retail and fast-moving consumer goods industries. An S&P 500 company, Nielsen has operations in over 100 countries, covering more than 90% of the world’s population. For more information, visit www.nielsen.com.

THE SCIENCE BEHIND WHAT’S NEXT™