

# Food Promotions – Guidance for Manufacturers

How to develop food promotions that won't contribute to increased food waste

## Purpose of Guidance

### Why this guidance is required

- Over one-third of food sold in the UK is on promotion: promotional sales in grocery are worth over £28bn.
- Promoted lines can contribute over 40% of manufacturers' sales with promotions increasing considerably over recent years, though there is now some evidence of decline.
- Promotions can potentially impact food waste in households and in the supply chain, so a whole-chain approach is required for promotion planning and evaluation.
- Manufacturers have faced increased commodity costs and price volatility, such that the promotional landscape gives rise to concerns over dealing with risks and managing disruptions to supply.

### What this guidance provides

- Practical steps for preventing waste for each of the main stages in the promotion planning process.
- Identification of potential savings, including the cost of waste disposal and the lost resources that have been used, valued at £950 per tonne of waste prevented at the manufacturing stage.
- New knowledge, based on best practice across the grocery sector.
- Potential for better service levels, including on-shelf availability, and lower residual stocks.
- Potential for more effective collaboration with customers.

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## How to use this guidance

Promotions are run for a variety of reasons, generally concerned with market share or generating footfall. Some promotions address production surpluses, but typically waste prevention is not an objective for promotions.

These notes are aimed at manufacturing teams responsible for developing and executing promotion programmes. They have been derived from research undertaken primarily in the produce and dairy categories, involving 37 interviews with manufacturers and retailers across six supply chains, but have wider application to the rest of the food and drink sector.

Below are our guiding principles on waste prevention for promotions. In the guidance that follows, we have focused on the main causes of waste during each stage of promotions: process; production planning; forecasts; communication; supply chain; and evaluation. For each stage, there are practical suggestions for preventing waste arising. Finally, there are some next steps for manufacturers.

We recognise that our suggestions will not be practical in all cases, but we hope the document provides, in a convenient and comprehensive form, some tips that food manufacturers will find helpful in preventing waste.

### Guiding Principles

1. Build waste prevention into promotion planning and make waste arisings an evaluation metric for all promotions
2. Develop and adopt standard operating practices that include actions to reduce waste for all promotions
3. Collaborate and communicate on waste prevention with supply chain partners at all stages in promotion management
4. Avoid promotion-specific material, for example packaging, as this limits the potential for re-work



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## Process

### Issues

While the majority of promotions are planned in advance between manufacturers and their customers, our research indicated:

- Some promotions and/or price changes are made 'last minute' because retailers are pressing for market share or manufacturers have an excess of production they want to market, inevitably this means rushed decisions and potentially increased waste;
- Promotions often do not have documented 'standard operating practices' defined at a sufficient level of detail to avoid waste and other difficulties during the execution of the promotion;
- High-level ownership and strong communications, essential for effective promotion execution, can sometimes be lacking;
- Certain stages in promotion-planning will drive more waste than others, these drivers are not being identified and are not well understood;
- Evaluations of promotion campaigns are not always undertaken; and
- The 'true cost' of a promotion which includes waste, lost sales on victim lines and the cost of any residual stock disposal is not being used to assess the impact of promotions.

### Potential Solutions

- Start promotion-planning at least 12 months out, depending on the product category and product cycle times;
- Produce Standard Operating Practices (SOPs) for all promotions, which identify waste prevention as a requirement for the promotion. Share SOPs with all parties to the promotion, which include agreed protocols on waste prevention, and on the handling of late changes and delays and contingencies to deal with residual stocks;
- Value stream map the promotions process to identify the main drivers of waste and use the results to change the SOPs;
- Agree 'Lock down' dates at the outset after which no changes will be made to the promotion process by either party; and
- Identify your waste prevention metrics for the evaluation stage and include within the SOPs. Remember the true cost of waste includes all the materials, energy and labour that have gone into making the product as well as its disposal cost.

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## Production Planning

### Issues

We found that promotions challenge production-planning because of more variable demand, potentially giving rise to increased waste.

Our research indicated:

- Short product life products with short lead times are very prone to being wasted during promotions;
- Retailer-specific promotions or retailer-branded promotions can cause high levels of waste because the products cannot always be re-worked;
- Cycle times for ingredients and packaging are likely to be longer than for production requiring long term planning and collaborative working to minimise waste;
- Promoted products that are produced overseas can be wasted if there are last minute changes required; and
- Poor weather can impact the production yields and quality of produce, resulting in either the pulling of a promotion or poor quality produce being promoted (resulting in waste).

### Potential Solutions

- Examine ways of achieving 'economies of repetition' that come from fixed schedules, built on standard work, and continuous improvement using lean principles;
- Keep detailed records of production issues during promotions and use these to target improvements;
- Acknowledge different cycle times for packaging and ingredient suppliers and build these into promotions planning – time spent planning is time well spent;
- Encourage customers to provide fixed orders at the start of a promotion to provide more certainty; and
- Ensure clear and timely communication on production planning requirements throughout the supply chain. This can alleviate potential issues with planning the promotion.

***'By providing volume forecasts further in advance, we allow our suppliers to send fruit straight from their sites in Spain directly to our UK depots. As a result, customers can buy fruit which is up to two days fresher and this extra shelf life helps reduce waste throughout the supply chain.'***

***Tesco (2014)***

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## Forecasts

### Issues

Our evidence shows that forecasting is far more difficult for promotions because of the increased uncertainty, particularly for new product launches on promotion.

Our research indicated:

- Best practice in forecast methodology was not always being deployed;
- There can be multiple forecasts, sometimes within the same organisation, but also with customers;
- Manufacturers are packing to forecast, which may then have to be re-worked – instead, small adjustments to the timing of orders, agreed with customers, could enable better planning; and
- Promotions can go wrong and create waste because weather events can significantly impact on the outcomes – more volatility in weather patterns are likely to be the norm.

### Potential Solutions

- Agree a single forecast, established at the beginning of the promotions plan, which is communicated and signed up to by all elements of the supply chain - the Collaborative Planning Forecasting Replenishment (CPFR) method provides guidance on best practice;
- Use historic, actual and forecast weather data that can be obtained from the Met Office and others for a range of sites in the UK, to help forecast sales;
- Refer to best practice in forecasting, which is reported on from time to time by IGD and by other bodies as this can help to benchmark your processes;
- Align and agree forecasts with the customer ensuring that both parties are agreed regarding the promotion mechanic, marketing campaigns and likely volumes; and
- Fixing volumes at this stage will help alleviate issues at the production and packing stages. Base decisions on timely data, e.g. using till transactions to confirm volumes.

***"Flexibility in responsiveness and the robustness of integrated business planning are important factors in delivering real-time, demand-led supply chains, but companies need to take a more systematic approach to demand planning and forecasting".***

***IGD (2010)***

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## Communication

### Issues

Although the research found good working relations with customers, there are still examples where trust was lacking between supply chain partners such that communications were not effective - potentially leading to waste.

Our research indicated:

- Examples of poor communication with suppliers, which led to the wrong products being promoted and underperformance of another product not on promotion - causing waste;
- Unplanned transport of goods and poor storage, resulting in damage and waste;
- A tendency to use promotion-specific packaging and labels which if incorrectly forecast will be wasted on completion of the promotion;
- A change to in-store locations of promotions, resulting in poor sales and an increase in waste; and
- Lower-quality produce during the cross over of seasons.

### Potential Solutions

- Joint business-planning meetings should be held to ensure that waste prevention is considered across the whole supply chain;
- Products with short lead times can be more difficult to promote so, for example, long-term planning is required particularly in relation to agricultural products where alignment to growing/rearing cycles is required as well as effective communications as the crops ripen and animals reach maturity;
- Should there be a glut of volume in the market, discuss this with the customer and present potential sales opportunities and promotional suggestions. This will require a flexible approach from retailers;
- Promotion-specific labels / packs should be avoided where possible;
- Use market-standard packaging (for example 500g punnets) to ensure consistency across the market and provide flexibility within the supply chain, should products need to be redirected to alternative markets; and
- Conduct your own research and evaluation to consider how products are sold and the best position in-store for the product to be sold in. The results should be presented and discussed with customers.

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## Supply Chain

### Issues

The supply chain is critical to minimising waste for promotion, because our research indicated:

- Retailers are increasingly targeting on-shelf availability as a performance metric rather than delivery schedules adherence, which requires a more responsive supply chain;
- Distribution capacity may be required that could be in short supply. Examples were found of designated depots changing - resulting in a lack of consistency, impacting on the cost of haulage and pressure of delivery on time;
- Lack of information regarding harvest and quality of promotional produce;
- Over-supply during seasons e.g. strawberries in the summer resulting in waste;
- Lack of understanding regarding the category and the impact from promotions on the category; and
- In certain categories, it can be practice to overestimate orders by 10%, to incorporate last minute changes from customers.

### Potential Solutions

- Booking time at retail depots will clarify delivery schedules and communication with the customer/depot will alleviate delivery issues. Distribution plans to be jointly reviewed between suppliers and retailers ensuring that stock is managed;
- Locking down orders will help alleviate pressures within the supply chain particularly for day 1 and 2 of a promotion; and
- Conduct market analysis to understand the impact on the product from individual promotions. Review which products respond well to price reductions and which do not. Focus on those products that are price responsive and which bring new customers and drive volume.

***'We are building formal, long-term supplier relationships. In doing so, we will help producers to deal with volatility and uncertainty and give suppliers the confidence to invest in innovation.'***

**Tesco (2014)**

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## Evaluation

### Issues

We found a varied approach to evaluation – from no evaluation, to detailed evaluations conducted. However, in all cases, waste was not included in the evaluation of individual promotional campaigns.

Our research indicated:

- Typically evaluations measure the value and volume of sales, and the rate of sale by volumes. Wastage is not considered as a KPI for individual promotions;
- Typically, throughout the promotion, the evaluation is between days one and five and ongoing to the end. Good supply chain communication will deliver a post-campaign evaluation reviewing the success and consequences of a promotion;
- At a retail level, the success or failure is determined by sales volumes and waste levels (disposed and price reduced stock). This is typically not shared with suppliers; and
- Certain promotions such as half price offers can affect sales of other, substitute products, by the order of 20-25%.

### Potential Solutions

- Promotional efficiency cannot be measured solely by the ratio of trade funds to revenue. Factor in the true cost of a promotion, which includes the value of waste arising, at the end of all promotions;
- Evaluate the effectiveness and impact of a promotion against planned objectives and forecasts (for both retailer and supplier), including waste prevention as part of the promotions planning process.
- Establish KPIs at the outset of the promotion (including waste targets based on % of sales), and evaluate indicators at the end, considering future promotions, mechanic impact and placement in store;
- Business Unit Managers need to work closely with the retailer to analyse and evaluate the period of the promotion, to determine the actions for the efficient operation of a campaign;
- The root causes of residual stocks at the end of a promotion should be analysed with retailers and used as part of the evaluation to identify how to use them up; and
- The true cost of a promotion which includes waste and lost sales on victim lines should always be used as part of the evaluation.

## Next steps for Manufacturers

- Review this guidance to see which elements you could usefully incorporate in your business;
- All promotions should have a waste prevention KPI to help to determine the true success of a promotion. The cost of waste is not just the disposal cost but the cost of the ingredients and resources, such as labour, that have been used;
- Agree and adopt a single promotion forecast between all parts of the supply chain and commit to this at the outset. The Collaborative Planning Forecasting Replenishment (CPFR) methodology or its equivalent should be followed;
- Engage with customers to monitor and measure waste during promotion and understand the reasons for products that are marked down or disposed and apply this learning to future promotions;
- Our weather is becoming increasingly volatile, it can also be critical to the success or otherwise of the promotion, so use the best available real time weather data for promotion success;
- Labelling and product information can engage shoppers and help them minimise further wastage at home. Encourage shoppers to store the food they buy on promotion properly at home. This is particularly important for volume promotions. Highlighting what can be frozen on-pack will help ensure that consumers get real value from promotions; and
- Maximise product life and ensure product packaging displays clear date labels thereby providing a longer selling window and easier stock rotation.

***'Big promotions and deep cuts are not building brands and consumer loyalty'.***

**Paul Polman, Unilever, which is reducing its reliance on promotions in the UK.**

***'In March 2012 we signed up to the Food Network's calorie reduction pledge. To achieve this, we will take the following actions:***

- Reduce calories***
- Increase promotion of our no-calorie, zero sugar colas'***

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## Notes

### Background

The research that underpins these guidance notes was conducted during 2012/13. The research was focussed on the produce and dairy categories but we believe the results have more general applicability. A report of this research is available [ ] Preventing waste through good promotions management, WRAP (2014). This Guidance Note is based on that research together with a review of relevant trade and other literature.

The data for this analysis are sourced from Kantar Worldpanel.

### Process

Evidence can also be found in: 'What's a good promotion' by the Promax Applications Group (Kamcity)

The true cost of waste in a promotion includes the actual costs of the marketing, the loss of sales on victim lines, the cost of residual stock disposal and the cost of waste (not just its disposal cost but the cost of all the ingredients, energy, water and labour).

### Forecasting

IGD report on demand planning and forecasting methodologies from time to time.

Professor Robert Fildes, Lancaster University Management School is developing sophisticated forecasting methods for food products.

### Supply Chain

WRAP's retail survey <http://www.wrap.org.uk/content/helping-consumers-reduce-food-waste-retail-survey-2011> published in 2012 demonstrated that the use of 'display until' dates has fallen dramatically with less than a third of surveyed products carrying this, and no 'sell by' dates were found on any of the products.

### Generic Issues

Professor Andrew Fearn at Kent Business School has used Tesco club-card data for analysing the impact of promotions on households. Several studies are available from the Business School: <http://kar.kent.ac.uk/28623/>

### Next steps

Information on the CPFR model can be found at: <https://www.bisg.org/docs/VICS-CPFR.pdf>

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For more information, visit [www.wrap.org.uk/waste-prevention](http://www.wrap.org.uk/waste-prevention)

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