

CATEGORY MANAGEMENT LEARNING FORUM

TOPIC: CATEGORY HEALTH (PART 2): BASELINE VS INCREMENTAL SALES

By Sue Nicholls, President,
Category Management
Knowledge Group
www.cmkg.org
sue@cmkg.org

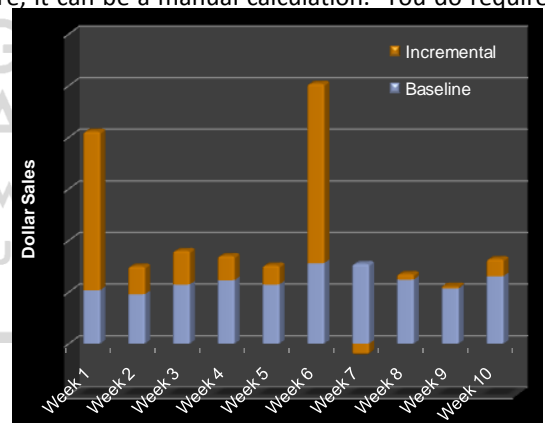


Fall is business planning season! ... and in preparation for this very important season, it's a great time to complete a category / brand health checkup – this is “Part 2” of our health check – which focuses on baseline vs incremental sales. As we learned in the last topic (Topic #4: Category Health), reviewing category results is the first step to completing a category health assessment. This assessment will include measures like dollar/stat volume, share, absolute volume change, market share, market share point change and % change vs year ago. Once this part of the assessment has been completed, it's time to go one step deeper, by looking at baseline and Incremental sales.

Where do you get baseline and incremental sales data? This data can be purchased through 3rd party data companies like Nielsen and IRI (of course, at an additional cost), as a statistically modelled baseline measure for your product. Some retailers have baseline as a calculated fields within their systems. However, if your retailer scanned POS or 3rd party retail measurement data does not have a baseline sales measure, it can be a manual calculation. You do require weekly sales data to complete this calculation.

Once you have access to the data, you need to understand the definition of baseline and incremental -- and I mean **TRULY** understand. **Baseline sales** are the normal expected volume week to week for a product, brand or segment. They are “modelled”, based on algorithms that calculate anticipated sales. Baseline sales would have sold without any type of promotional activity. You can see the baseline sales as the **blue** columns in the chart on the right.

Incremental sales represent the additional volume sold, based on promotional activity, including price reductions, and ad and display activity. They are depicted in **gold** on the chart you see at the right. Weeks 1 and 6 had promotional activity, because their incremental sales are so high. Baseline plus incremental sales equals the total volume each week.



Another consideration with baseline and incremental sales is that they are **not** equal to non-promoted and promoted sales. The top graph to the left shows the breakout of incremental vs baseline sales for each week. The bottom graph to the left shows the same data as the top graph, but with a breakout of promoted vs non-promoted sales. As you can see, each week is either promoted sales or non promoted sales. So if the product was promoted that week, through ad, price reduction or display, then all of the sales are allocated as promoted sales.

So which data set should you be looking at when assessing promotional effectiveness, determining the biggest payout ad weeks, and committing upwards of hundreds of thousands of tradespend dollars? Hopefully you answered “the incremental and baseline sales data”. You should assess your promotions based on incremental sales, and not on the baseline sales that would have sold without the promotion.

Within your category health assessment, you should have a breakout of segment results and drivers by baseline and incremental sales, including growth variables. By adding this into your category health check, you are one level deeper in capturing the drivers at a category and segment level.

The next step in the health assessment is to look at the actual drivers associated with each of incremental and baseline sales. This is where the action comes for the category health assessment, and really gives you the information to make action-based recommendations in the category. We'll review this in our next learning forum.

If you like this tip, you may be interested in one of CMKG's accredited \$99 eLearning courses: “[Measuring Category Health](#)”, “[Advanced Analytics](#)”, “[Promotional Analysis Techniques](#)” and “[Pricing Strategies and Analysis Techniques](#)”. Each course relates to advanced analytics with baseline & incremental sales drivers, and includes eLearning in CMKG's eLearning center, workshops, downloadable study notes. These courses will benefit Category Managers, Category Management Analysts, Account Managers, Trade Marketing and anyone else who should understand baseline and incremental sales-related topics. [Click here](#) for a list of all of CMKG's courses.