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**Circulars – a media of it's
own or ?**

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Circulars – a media of it's own or?

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Introduction

The level of circulars distributed for various retailers has increased steadily during the past decade. Even retailers that earlier relied primarily on price and location as marketing parameters have introduced circulars. Circulars vary in size and distribution frequency, but they share the end-user as the primary target. Another interesting characteristic is that suppliers to the retailers using circulars often contribute financially to the development, the printing and the distribution of the circulars. Thus, it is not unusual that the retailers make a profit from the circulars. Furthermore, the supplier's participation in the circulars is often an integrated part of the trading terms governing the relationship between the supplier and the retailer.

But the suppliers' participation in the circulars have not been examined before. We don't know what tasks they perform (from layout to distribution), who is paying for what, how is the circular placed in the total picture of marketing communication – as seen from the retailer's point of view and from the supplier's point of view.

The purpose of this paper is to examine the role of the circular as a media, and if it's not a media, then what is it?

A short recap of what a circular is

Circulars can be described psychically¹:

- Size (e.g. A4, tabloid)
- Number of pages (The circulars size by number of pages)
- Colours (black/White or 4 colours)
- Paper quality (glinting paper or newspaper quality)
- Number of times it is delivered a month (e.g. every Sunday)
- Content (Is the content divided in themes, or only regular special offers)
- Distribution method (Delivered with the local newspaper, or together with the competitors circulars, or postal delivering).

¹ Bjerre & Christiansen, 2000.

These variables not only describe the circulars, they also give a hint about the different shapes a circular can have. The content and the retailer behind the circular can be seen as an expression of the strategies the retailer has. Hereby we mean, the way a circular is divided between clear special offers, image campaigns, known brands and new brands. The layout and use of the variables of the circular shows how the retailer weights image vs. price led strategies and illustrates the objectives with the advertising activities. In general a circular may be defined as²:

A circular is a frequently distributed print media of minimum 4 pages It is part of the senders mass communication, can immediately be read by the recipient and is targeted private consumer and firms

Clearly, this is a communication device – a media.

Various types of Circulars

In strategic retail literature, retail advertising is described by very similar typologies, that distinguishes between short term (promotional advertising) - and long term (corporate advertising) (Cox & Brittain, 1993), or promotional and institutional advertising (Hathcote, 1995). Rossiter & Percy (1997) focuses on the two brands a retailer has to advertise: the products sold and the store brand. Fulop (1988) points out how the retailer mix is composed from a differentiation strategy to promote the store through the retailer name.

All the sources emphasise the main goals/objectives as increasing store traffic, creating store loyalty, stabilise volume and placing the store in the consumers' mind (Hathcote, 1995). These distinctions are based on short/long term objectives, Circulars are mentioned by very few words, and a clear definition does not exist, but they are viewed as short term/promotional advertising activities (Cox & Brittain, 1993).

But why make this distinction? Who can distinctly define a circular as a short-term promotional activity only? The circular also contributes to the store image, as it is a part of the store's external activities. Here, it's argued that the distinction is no longer that visible, but by instead defining/categorising the circular, the short/long term goals will be obvious.

² Bjerre & Christiansen, 2000

Categorisation of Circulars

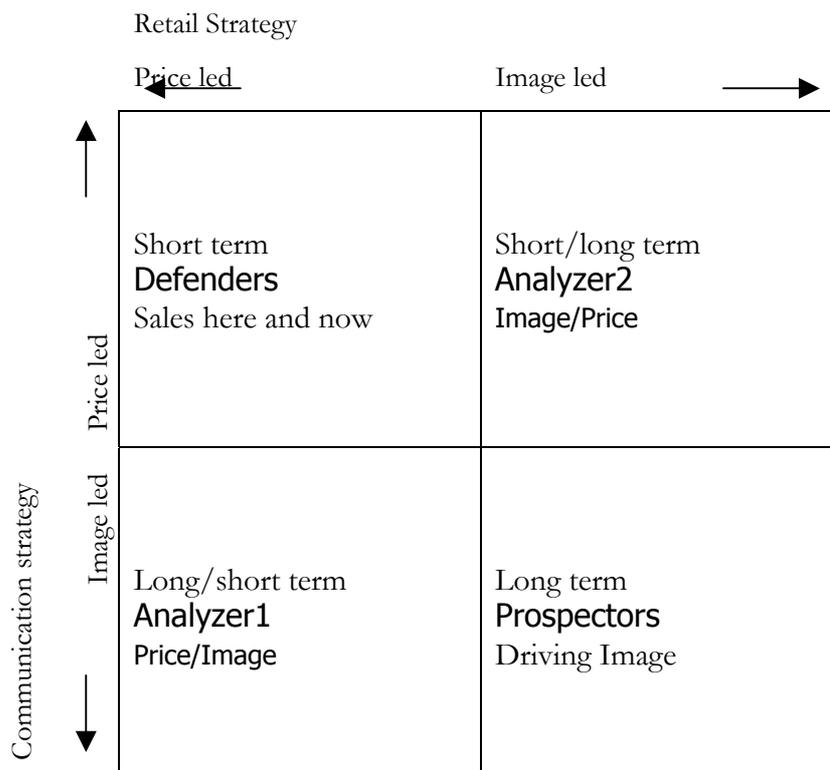
The purpose of a categorisation of circulars will not only help to place the circulars in terms of short/long term objectives. It will also give an indication of how retailers could compose their circulars if they are aware of the strategic possibilities circulars can give them.

Categorisation of circulars can be done in different ways, depending on the choice of view and purpose of the categorisation. Secondly, a categorisation of circulars can be made from the distributor point of view. This will e.g. facilitate consideration of the circulars in terms of whom, and with which competitors the circulars are being delivered. This, however, would not give us a better understanding of the strategies and decisions made in composing a circular.

Thirdly, a categorisation could be made by considering the recipients of the circulars in terms of e.g. the segments they belong to. This would answer questions about which retailers communicate to which groups of customers.

Lastly, circulars could be categorised by the sender's (the retailer's) strategic objectives when composing circulars. This is the view we will use when categorising circulars. It is possible to determine the retailer's strategies from the content of the circulars, because, as mentioned before, the content can give us a hint about the short/long term objectives. This view is illustrated in figure 1 using the typology of Miles and Snow (1978). Not only will this allow us to determine which strategies the retailers have when they compose their circulars as they do; it will also give us an understanding of the long term versus short term perspectives involved.

Figure 1: Categorisation of Circulars



Source: Bjerre & Christiansen, 2000

Defenders' Circulars – Sales here and now

‘The defender circular’ is characterised by reacting only in prices. It is a short term circular, that are only price led.

Low Price is a central issue in the defender circular and it only has to advertise for at narrow assortment. The defender circular has no surprises, when it comes to the layout and the goods advertised for – they will rarely change layout, the only surprise is the prices which may vary from time to time. Primary purpose is to create traffic to and in the store.

Analyzers 1 and 2 – Balancing between Price and Image

Analyzers play it safe and can be characterised as a combination of cost and risk-minimisation (defender), and opportunity seekers (prospector). (Bjerre 1999).

In the matrix two groups of analyzer circulars exist: Analyzer1 and Analyzer2.

Analyzer1 is more price led than image led. This means that analyzer1 focuses more on an income providing assortment, traffic buffer, and less (but more than the defender) image creating, and will change the assortment in an trial and error manner. The circular will therefore focus on creating traffic through e.g. bargains and image through stories – told by a different assortment adapted to the season. In Denmark this is the classical circular.

Analyzer2 are more image led than price led. This group places the store in the consumer's mind through a large assortment of image creating goods. And to keep up with the competitors they have traffic buffering assortment to offer the same bargains as the competitors. Their more image led circulars are created to place the store in the customers mind, but not only to gain knowledge, also to gain a certain feeling of values when shopping in this store. This type of circular is often seen when the circular is expected to last for more than the normal week, for instance when distributed around Easter, Christmas and other public holidays.

Prospectors' Circulars – Driving Image

Constantly seek new opportunities for positioning. They focus on image and price is not the object in the prospector circular. Through the prospector circular, the store follows a wide range of environmental conditions, trends, and events create a more value-based experience for the customers. This type of circular often aims at being kept for some time by the consumers – either because they contain practical tips or because they represent journalistic qualities.

Apart from being opposed to the defenders, the Prospectors image led circulars are more focused on customer segments than the other groups, and it would also be here we would find niches.

The Circular as a Media

The circular is a media – as defined earlier, but does the actors involved in the development of circulars treat it as a media? Apparently the answer is not clear cut – as described below, suppliers do not regard the circular as a media, despite the fact they pay for advertising in the circulars. When content is planned and decided by the retailer it is a question on which – typically suppliers' products – that are going to be placed on the front and back-page of the circular.

Timing of advertising in the circular is often decided by the retail buyer (or category manager) and the suppliers' key account manager – but as the circulars are planned well in advance of their distribution (in some instances up to 36 weeks in advance) reality is, that the retailers have

considerable influence on this matter. Timing will thus typically not depend on other marketing activities planned by the supplier, unless it's is a question of new product launches.

Future trends are that the number of circulars will continue to increase – and we have seen the first examples of retailers publishing circulars twice a week (Netto and Kvicyl). Furthermore, as the private labels products in the non-food categories continue to grow in the retailers' pursuit of categories with margins higher than food products they also expect to increase the number of pages in each circular.

Methodology – interviews, problems, confidentiality

The interviews carried out during the research process have been characterised by several obstacles – compared to ordinary research interviews. None of the interviewees have expressed any interest or willingness to be quoted or to be listed as interview persons – actually, several have insisted on being completely anonymous.

Furthermore they have expressed that the original desire to be able to calculate a millimetre-price in the circulars did not matter, as they regarded the price negotiations and discussions as an integrated part of the trading terms – and the “bigger picture”.

Division of tasks in the marketing systems involved in circulars

Producing circulars involve more than merely suppliers and retailers. Other parties may influence the circular and the discussion whether or not it is a media. These other parties can be divided into three groups – printers, advertising agencies and distributors.

Suppliers

Most suppliers regard circulars as part of the negotiations related to the trading terms, typically settled as a frame-agreement once a year. Thus, circulars are not part of the marketing department's planning processes and are not included in brand building programmes. A primary explanation seems to be the fact, that the yearly negotiations do not involve the supplier's marketing department, but is often handler by the sales department

The functions within the supplier's organization being responsible or being in touch with the retailer regarding circulars are typically:

- Key Account responsible
- Trade marketing responsible – may have some relation to brand/product managers

Furthermore, it is essential to understand that the demands on key account responsible individuals in the supplier organizations often are expressed in tonnes and/or volume. Whenever volume is lagging behind, it is often used as a remedy to “activate” the product/products in question using a combination of price cuts and advertising in a circular.

In other words, when the suppliers pay to advertise in the circular, this payment often includes other deliveries from the retailer, such as:

- Displays in other locations, than the one determined by the category
- Getting more shelf space than the market share would otherwise give
- Shelf space allocation supplier by suppliers
- Better shelf space than space management analysis’ suggest
- Listing of total assortment – full width and depth
- In short – to be “on promotion”

Retailers

Retailer representatives interviewed stress the need for using circulars in today’s marketplace. Most of them recall the result end experiences acquired when one of the soft discount retailers, Fakta, tried to go back to their original concept – Every Day Low Price – without publishing circulars. The test lasted for only six weeks, and will not be repeated. Results clearly showed that the consumers reacted negatively to the absence of the circular, leading to a significant decrease in traffic to the stores and sales. Therefore, most retailers regard circulars as a very important part of the ongoing market communication.

But it’s not merely a question of communication – most of the retailers also operate with budgets per page in the circulars – budgets that are expressed in terms of sales out of the stores. This calculation method constrains the opportunities to vary the number of products per page and also leads to a need of assurance that the page must have a short-sighted/immediate effect.

The functions within the retailer’s organization being responsible for or handling tasks related to the circulars are typically:

- Buying function – represented by a category manager
- Marketing, at retail chain level
- Store operations, setting up in-store activities

The retailers representatives interviewed did not want to comment on profits/costs related to the circulars, but they all acknowledged that they did not have any direct costs related to the production, distribution or developments of the circulars. In other words, the circulars is not a financial burden to the retailers, but we don't know if there is a profit, and if this is so how big it is.

Printers

When deciding where to print circulars the volume in question seems to decide the choice of printer. It is not only the total number of circulars that decides the choice of printer, the choice is also influenced by the paper quality (weight, thickness, absorption, etc.), the size of the pages, the number of pages in the circular, and the colours on the pages. The different types of printers are listed below:

- Printing by local newspapers – typically only for local retailers or small volumes
- Printing by large printing firms in Denmark – seems to be gradually decreasing in total volume, providing quick and direct transportation to distributors
- Printing by large printing firms outside Denmark – being printed in Europe and even out-side Europe, implicating that time is needed for long distribution distances

Advertising agencies

Designing circulars covers a wide variety of functions. For some retailers themselves manage these functions, and for some retailers these functions are out-sourced to advertising agencies. The functions being responsible or being in touch with the circulars are typically:

- Advertising agencies, the customer responsible, the creative people and of the production people
- Production responsible staff at the retailers office
- Printer/broker staff handling the tasks

Distributors

Distribution of circulars is either handled by the national distributor – PostDanmark, by the local operators/distributors focusing on densely populated areas, or by a combination of the above. In other words the distributors are competing, buying from each other, and collaborating at the same time.

The national distributor – PostDanmark is the national postal organization, providing the distribution set-up able to reach every household in Denmark. PostDanmark is obliged to have this distribution set-up in exchange for the distribution monopoly on letters.

Potential recipients

During the interviews it became clear that circulars often have more than the obvious target group – the consumers

Several of the interviewees pointed to the need for internal communication in the retailer's organization, describing the circular as part of an "auto-communication" set-up to ensure that the retailer's own staff would be aware of what's on this week. This was especially pointed to in relation to voluntary retail chains.

Several of the supplier representatives interviewed also pointed to the need of "proof" of the in-store activities arranged and negotiated, using the arguments that when the product is advertised in the circular it is also "activated" in-store. "Activated" may refer to non-category located displays, price cuts, acquiring more shelf space etc.

One of the surprising comments shared by all interviewees was that nobody would look for brand building impact from the circular – actually they didn't monitor any kind of brand building effects of the circulars – it is simply not part of the marketing management process, neither within the retailer's nor the supplier's context

Pricing the Circular

Originally we set out to come up with a model to calculate the millimetre price of adds in circulars. As described earlier, payments linked to circulars today should also be linked to other deliveries from the retailer. Thus, it has not been possible to find pricing schemes or price lists.

Despite this, we have found some general rules that seem to be applied when prices and trading terms are negotiated.

The categories used to create traffic to the stores are primarily those that within the ECR-framework can be defined as destination, traffic builder and transaction builder categories – see figure 2.

Figure 2: ECR Categories

Destination	Assortment Total Best in category	Price Leadership	Promotion High frequency Consumer focus Many forms	Shelf-space Best location Much space Much traffic
Traffic-Builder	Wide Competitive	Competitive	High frequency Volume focus	Middle location Middle space Much traffic
Transaction-Builder	- Do. -	- Do. -	Middle frequency Volume and profit-ability focus Various forms	Middle location Middle space
Routine	Narrow	Higher	Low frequency	Excess space
Convenience	Selection	High	None	Excess space

Source. ECR Denmark, 1998

Seasonal relevance also influences the need for various categories, as not all categories are equally interest for consumers at all times of the year. Therefore timing of activities and adds may depend on the retailers’ expectations to consumer interest.

Company size and market share may be related to the ongoing power game between suppliers and retailers – thus it seems that big supplier having large market shares do not pay as much as do smaller players. However, if the buyer acknowledges that the pressure on the supplier has become too high, and the retailer is in need of an alternative to the big player in the category, the buyer may decide to provide the smaller player with quite attractive conditions – simply to keep the power balance towards the big player intact.

Personal relationships were mentioned by several of the interviewees as being influential – merely underling the absence of fixed management principles when pricing activities in the circulars and in-store.

Further research objectives

To develop a matrix with more substantial evidence of this typology, we are submitting focus groups with the customer viewpoint as a determinant for the groups of circulars.

To develop a calculation model focussing on the unknown costs/profits related to the circulars, and to be able to calculate a “full cost” scenario for different types of circulars.

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