Creating Win–Win Trade Promotions: 
Theory and Empirical Analysis of 
Scan-Back Trade Deals

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Manufacturer trade promotion spending is second only to cost of goods sold as a 
profit-and-loss item, yet manufacturers often lose money on these deals as a result of 
forward-buying by retailers. The search for more effective forms of trade promotion and the 
availability of scanners at cash registers has led to the emergence of a new type of trade 
deal—the scan-back—that gives retailers a discount on units sold during the promotion rather 
than on units bought.

We develop a theory to compare retailer pricing decisions and profitability under scan-back 
and traditional off-invoice trade deals. We show that, when the terms of the trade deal are 
identical, retailers prefer off-invoice trade deals and manufacturers prefer scan-backs. Manu-
facturers can, however, redesign the scan-back to leave the retailer weakly better off and leave 
themselves strictly better off. Using proprietary data from the beverage category, we conduct 
an empirical analysis and find that during the promotion period scan-back trade deals, relative to off-invoice deals: (1) Do not cause excess ordering and (2) generate higher retail sales 
through lower retail prices. Implications for researchers and managers are discussed.

1. Introduction

In March 1997, Procter & Gamble announced plans to eliminate 20% of its brands from trade promotion contracts (Advertising Age 1997, Campaign 1997); other major manufacturers were expected to follow (Incentive 1997). This desire to scale back trade promotions is a consequence of the well-known fact that whereas these promotions account for approximately two-thirds of all promotional spending, only 16% of them are profitable.¹ The underlying reasons for the poor performance of trade promotions can be traced to the following three factors: (1) forward-buying by retailers, (2) lack of pass-through to consumers, and (3) diverting. The combination of these three factors 

¹ See, for example, Economist (1989), Chain Store Age (1996), and Blattberg and Neslin (1990) for a review.