CONSUMER GOODS TECHNOLOGY

TRADE PROMOTION MANAGEMENT INSIGHT

WITH CLARKSTON CONSULTING

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How is trade promotion management (TPM) functionality transforming the way manufacturers go-to-market with their retail partners?

For years, retailers have looked upon trade funds as a profit center used to bolster low margins. Without accurate information and in-depth analyses, consumer products (CP) manufacturers are at a significant disadvantage in negotiating trade rates and allowances.

Today, leading CP companies use advanced analytics to build collaborative trade programs for retailers focused on building customer and brand loyalty. The "one size fits all" strategy no longer works. Consumers expect improved product performance, lower prices and instant availability, particularly when on promotion. Tapping into retailer "loyalty" card data is extremely valuable in providing consumer insights and segmenting customers based on their shopping behavior. Loyal customers typically spend more, cost less to serve, and refer others that lead to higher levels of sales and profits.

While the process of manufacturer/retailer trade collaboration is still evolving, innovative companies are working toward shaping consumer demand rather than responding to it. While few companies truly integrate pre-promotion planning directly into the demand forecast, the benefits of doing so are significant resulting in more accurate sales forecasts, revenue growth, fewer out of stocks and more satisfied consumers.

With trade promotion expenditures accounting for 14-20% of revenues for consumer products manufacturers, why aren't the majority doing a better job at analyzing trade promotions and reducing spend?

Consumer products manufacturers are well aware that the pace of annual trade fund spending is outpacing profitability growth. Yet manufacturers continue to invest dollars in their retail partnerships built on traditional strategies of the past. Today it takes more than implementing a technology solution to optimize trade fund spending.

<u>The Management Challenge</u>

The trade promotion challenge is *not* recognizing the need, but in the development and full execution of a strategy that includes a process, technology, and change management plan. Before embarking on a trade promotion management journey, a company needs to determine who is ultimately responsible for the continuous rise in trade spending and where does the buck stop?

With pressure to meet Wall Street expectations, trade promotion is a quick fix when sales fall short. The results are immediate but not long lasting for many mature fast moving consumer goods brands. Similar to breaking a bad personal habit, manufacturers are aware they have a problem and are often challenged by the lack of external best practices for their product portfolio and retail landscape. In addition, senior management is working towards profitability management yet most sales incentives and bonuses are still tied to sales volume and revenue. Executive sponsorship is a vital component of transforming your trade funds strategy along with a change management program adopted by the entire executive team.

<u>Organizational Change</u>

TPM impacts several departments including sales, finance, accounting, and demand/supply chain and information technology. There is not always a streamlined process in place to facilitate consistent

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and highly valuable trade promotion analysis. Each department plays a role; but without an owner of the complete end-to-end process, each department will remain independent at each stage of the trade promotion lifecycle. Historically TPM has largely focused on transactional efficiency dealing with the funding and settlement processes, not the analytics required to perform trade promotion return on investment. With a structured organization, streamlined data collection, and a business owner of the Trade Promotion Lifecycle, the ability and opportunity to conduct routine analyzes is dramatically increased. The best trade promotion analysts have the right blend of quantitative methods, customer and consumer insights and the savvy communication skills necessary to transform the data into knowledge and knowledge into results.

However, the greatest amount of significant change management issues stem from the fact that sales views trade funds as their "turf" and strongly resists oversight in this area. Most companies have not tackled this thorny issue, which is perhaps the single biggest reason trade funds remain a "black hole".

<u>Technology Change</u>

Trade promotion analytics requires multiple information sources, which may reside in different physical data repositories or not exist at all. While syndicated POS data is readily available to examine weekly in-store movement, companies have great difficulty re-creating the promotion history for each trade event and linking all of the true costs associated with the promotion.

Promotion cost information is often incomplete, inaccurate or simply missing. The industry wide use of rebates and unauthorized deductions makes proof of performance difficult to track and monitor compared to the days of simple Off Invoice allowances. Accounts receivables can be months behind in some companies and reconciliation can be both complex and lengthy eroding profitability.

Even when promotion costs are captured correctly, they are often reported at an aggregated level tied to internal fiscal financial reporting systems instead of when trade promotions actually occur. Trade promotion analytics requires granular data because the events are typically at the store and/or week level. Finally, the detailed historical trade event data resides in a stand-alone spreadsheet or has to be collected manually. Most manufacturers struggle to create a centralized database to maximize data collection.

Today, there isn't one major software vendor or hybrid ERP solution that provides all the necessary functionality to support the entire TPM lifecycle. Industry studies estimate that approximately 65% of organizations still use spreadsheets as their primary promotion planning and analysis tool. The combination of individual spreadsheets within a department and legacy TPM tools, continually sub-optimize quantifiable trade profitability. Eventually, the POS store movement and manufacturer shipment data must be tied together to get complete understanding of a single trade event at retail to calculate ROI.

How well do CP companies accurately and quantitatively measure trade promotion effectiveness?

The techniques to accurately develop baselines, which are needed to measure trade promotion effectiveness at the retail account/event level, have been available for decades. The biggest challenge is getting the right historical promotion data, particularly accurate spending costs and trade compliance information for each retail promotion event. In most instances the data does exists and is most likely not in a ready-to-use form. Industry studies indicates that only about 1/3 of trade promotions are measured today and a significant percentage do not have a positive ROI.[1]

Though the data exists to perform Return on Trade Investment (ROTI), there are typically data quality issues. Teams need to know how to find and cleanse the data to perform effective trade promotion analytics. Collaboration between sales, marketing, finance and IT is required to make process changes and improvements for capturing and correctly reconciling tracking claims, errors in payment, unauthorized deductions and pay-for-performance.

With accurate data, quantifying the impact of trade promotions improves. Trade Event Scorecards compare promotion events in the marketplace and reveal problem areas and present new growth opportunities. Key Performance Indicators (KPI's) are used to measure trade promotion effectiveness and provide customer insights that are actionable. While all KPI's are metrics, not all metrics are KPI's. Traditional metrics such as product revenue, revenue per case and promotion lift need to be replaced with KPI's that measure relative, not absolute, performance over a dynamic range for both the brand and category.

How does Clarkston help manufacturers better understand the benefits of a robust TPM strategy?

Clarkston helps executives to think beyond typical trade fund programs and launch an assessment of their company's strategy, processes and enabling technologies as their first step towards Trade Promotion Optimization (TPO). TPO is a closed-loop, cross-functional strategy that is designed to increase the efficiency, profitability, and visibility of trade fund investments. Though technology will play an important piece in the total solution, Clarkston assists teams to stay focused on two components – process improvements and change management. TPO adoption requires continual improvement and collaboration across the entire organization and quantifiable optimization of promoted events needs to become part of every senior management discussion to create the much-needed increases to top line revenue and bottom line profits.

Notes

1. National Association of Promotional Allowances, Fall 2004