Building a Successful Trade Promotion ROI

An Industry White Paper

CPG companies traditionally fail in more than one-third of their trade promotions, wasting billions of dollars in promotion funds while missing out on capital opportunities to improve. How to overcome this failure is a growing question asked by sales, marketing and financial executives throughout the world. How can we dramatically reduce the inefficiencies and failures of trade promotion? Here are four ways leading consumer products companies can gain ROI from trade promotion spending.

The level of sophistication for trade promotion management and execution strategy is growing, and yet, consumer products manufacturers continue to face the daunting challenges of improving the return on investment of more than one trillion US dollars globally every year. It is widely reported and recognized that more than one-third of all promotions fail. Failure is defined as not being able to break even between the cost of the promotion and the revenues generated selling the product through the checkout scanner.

The problem is much deeper than a technology solution or a revised process. The challenge is much larger than trade promotion programs and spending – it involves the very essence of how a consumer products manufacturer leverages its entire arsenal of go-to-market programs to win the ultimate victory – a consumer buying the product.

Over the last decade, we have seen so many retail companies close stores or shutter completely. On the one hand, it is sad to see great retail institutions like Toys R Us, The Limited, Radio Shack and A&P Stores drop completely off the marketplace. Retailers that have recently announced huge numbers of store closures like Mattress Firm, Best Buy, JC Penney and even venerable old Macy's are pulling out all the stops to keep relevant against the onslaught of online ecommerce.

So, what is the answer to the question of what causes this hockey stick curve for the number of stores that are going away?

Amazon? Alibaba? E-Bay?

No. Those are some seriously effective companies that figured out how to offer something unique and different, and please the consumer through the execution of their own strategy and operations.

The answer?

It's the ***consumer***.

Today's consumers, and especially the millennial or generation Z, are power players. They know what they want and are more knowledgeable about a product than most of their Baby Boomer parents and grandparents because they research. In the blink of an eye, they have their mobile phones up, a search conducted, a site selected and *BANG* – they're already seeing a world of knowledge that gives them the insights about the product. They can see deals, compare, and make their minds up in a heartbeat – all while listening to their favorite anime or tune.

Online ecommerce players like Amazon and Alibaba came up with great ideas. They figured out how to do one simple thing – *please the consumer* by knowing what they want and delivering it to them quickly and inexpensively. Retailers grew complacent, expanded quickly, traded good old customer service for high turnover, minimum training and an expansion program that taxed every resource they had. Moreover, they began to realize that the decades of pressure put on their manufacturer suppliers for higher trade funds had virtually ended the annual 1 – 3% increases they came to expect in their trade promotion spending. The margins were as low as they could go, and there was no room for negotiation or collaboration.

For the manufacturer, this is no less dangerous than a tightrope walk across Niagara Falls, and is well underway. While the true revenue generation allegiance still favors the retailer, they have to play the ecommerce side of the channel themselves to cover their own revenue and profit growth. The marketing organizations began to grow their competence in consumer engagement, generating huge data lakes of consumer profile data and integrating sophisticated marketing response analyses, campaign testing intelligence and building a powerful pool of insights about consumer demand, shopping, and purchasing.

Trade promotion planning is still being done in a total vacuum of all this intense consumer data. Key account managers and sales reps who are responsible for generating promotion plans have basically two types of data they can call on to help them understand the best timing, tactics (activities), products, markets and retailers to select for the promotion plans. Those two data elements include historical trade promotion performance data (if it is maintained) and, in most cases, some downstream data including point-of-sale (POS) and syndicated (IRI/Nielsen) consumption data.

Even the tier one CPG companies were slow to recognize the true power of trade promotion, and even slower to understand the critical advantage of sophisticated promotion optimization technology. As a percentage of gross revenues, global CPG companies spend an average of 27% on trade promotion compared to literally half that amount in direct-to-consumer marketing; and it has been this way since the early 1970's.

Historically, trade promotion "success" metrics have been, and continue to be measured by the *volume*, *revenue* and *profit margin* achieved at the sell-in. Very little attention has been paid to the actual *results* of the promotion at the cash register.

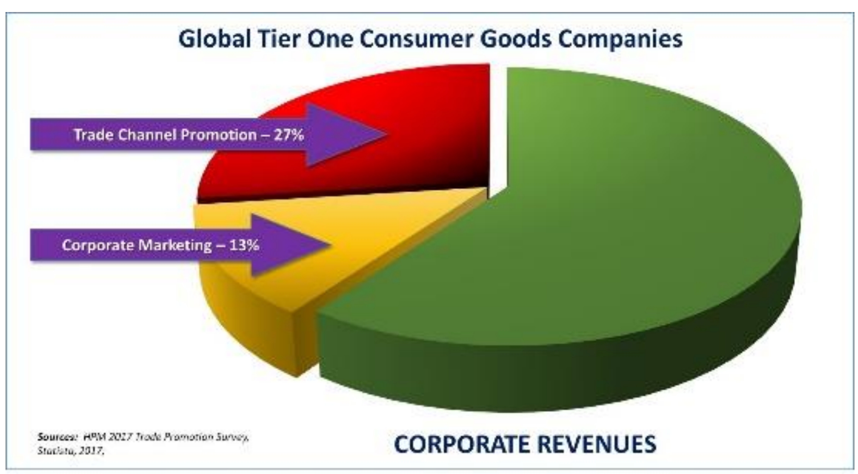
By most analysts' measurements, trade promotion spending fails to achieve a positive ROI more than *one-third* of the time. Most CPG executives blame two primary causal factors – poor promotion planning and out-of-stock conditions at the retail shelf. These are key reasons for failure, but they are not the sole and only answer to the problem.

Promotion Planning and the Myth of Optimization

For all of the growth in technology over the past two decades, the process of trade promotion planning is woefully behind. The spreadsheet is still the most widely used "platform" for a sales rep or key account manager to use in planning their promotions for their customers. In any one consumer products sales organization, the chances of finding a truly consistent and effective format across the sales team are relatively low. Even for companies that employ sophisticated third-party trade promotion management administrators or software applications, the default is always to the rep or KAM's individual spreadsheet.

Of the nearly 30 trade promotion management software vendors in the world, only about one-third of them contend that they provide a promotion optimization tool that enables scenario modeling and predictive analytics that leverages historical trade promotion data and produces an "optimized" promotion to be plugged into the annual forecast plan.

Of that number of vendors, only a handful actually leverage real AI or machine learning cognitive computing technology to deliver results. Given that real data science-driven trade promotion optimization (TPO) is still very immature, it is safe to say that very little real *optimization* is being done, hence, the precision and trust in predictive ROI results from trade promotion planning has to be relatively low.



The good news is that the technology is improving with more TPM vendors developing TPO functionality and coming on line. But the *science* of TPO is further ahead than the *art* of promotion planning at this point. Capgemini's conversations with our CPG clients around trade promotion continually include comments like "our sales teams are not up to speed on TPO," or "We should not invest in a TPO system until our process is changed to accommodate the technology. As with any emerging technology, that is to be expected. However, given the growing coverage among the trade press and industry organizations, there is no doubt that this will turn around within the next few years.

Promotion planning has also heavily leveraged the demand planning process within supply chain management organizations. The most important "deliverable" from that process is the <u>*baseline*</u> for product volume assessment. The primary use is to show the average volume of product that is sold across the annual timeframe for each retailer account divided by promoted versus non-promoted product. Using this data, the promotion planner can "assume" that the baseline will show an accurate picture of what to expect based on historical and projected supply and demand. However, as with numerous systems and processes that have driven the planning of promotions over the years, there are problems there as well.

Baselines are calculated leveraging data that comes from a combination of internal product shipment history, warehouse and inventory and point-of-sale data. While shipment history and warehouse product data is relatively accurate, POS is high averaged and often inaccurate to the point of skewing

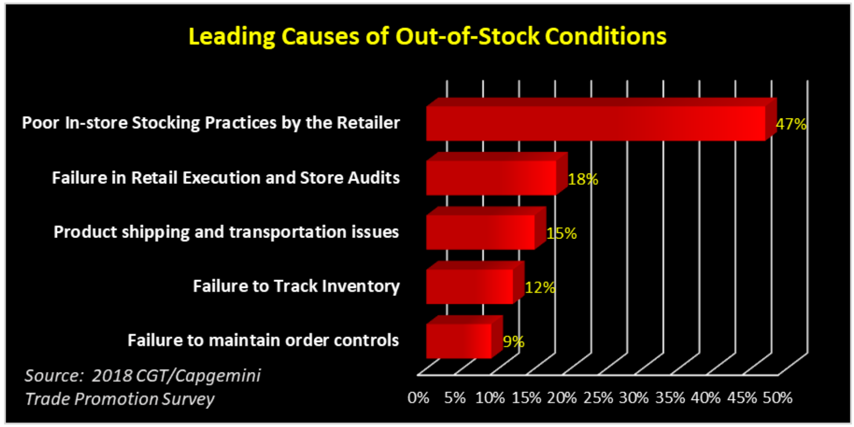
the baseline and creating havoc with attempts to project accurate ROI on promotion results. Syndicated data providers like Nielsen and IRI do not capture 100% of retailer POS data and provide averaged store-level POS data based on extrapolated calculations and averages.

Most CPG manufacturers would prefer actual POS received directly from the retailer; however, it is both expensive to acquire and difficult to deal with. The success of companies like Retail Velocity, Retail Solutions Inc. and e2Open who provide pre-built API's and cleansing/harmonization tools for retailer POS is beginning to give CPG suppliers more accuracy in their demand planning and trade promotion plans while also enabling data POS versus the often-latent syndicated data currently being received. This will continue to improve promotion planning and baseline accuracy.

The Elusive Victory Over Out-of-Stock Conditions

Many trade promotion experts point to out-of-stock (OOS) conditions as the primary reason for trade promotions that fail. There is little in the way of hard data depicting the actual number of instances where, during a promotion, the shelf is empty of the promoted product at least one of the days. Nevertheless, it is clear that OOS is at the top of the list of reasons for trade promotions that fail to reach breakeven ROI.

Once a product leaves the manufacturer's last ownership location – the warehouse, it's gone. Out of view and below the radar of supply chain tracking. While there may be good data for in-transit inventory from the manufacturer's warehouse to the distribution center or store, once it is received and unloaded, the lights go out for the supplier.



The Consumer Goods Technology Survey on Trade Promotion for 2018 sponsored by Capgemini has 47% of the respondents blaming empty shelves during promotions on poor in-store stocking practices. That does not bear out practically, because we know that the retail supply chain from the distribution center to the store stockroom has significant issues as well. But data on tracking of inventory from the DC to the store, although existing within most of the retailers' point-of-sale information goes widely missed by CPG suppliers and, therefore, creates a huge hole in the intelligence necessary to predict and take relevant action to prevent OOS conditions.

The retailers hold the key to the solution for the OOS problem. If they can provide the suppliers with the tracking data for their specific SKU's, the suppliers will be able to not only have near real-time visibility to the retailer's supply chain, they will be able to create and maintain detailed historical tracking of the promoted products which will enable them to better project OOS avoidance situations and better ensure that stock is in place within each store location at the beginning of the promotion.

Given that almost half of the manufacturers believe that OOS conditions are the fault of bad in-store stocking practices, there are also issues causing problems from the "phantom inventory" practices of store managers and the perceived lack of discipline by the corporate retail management to clean that problem up. Retailers will disagree, of course, and we have seen instances where the retailers are indeed adding the supplier's SKU tracking in the regular daily POS feeds when/if the supplier takes advantages of or purchases them.

With daily POS providing even raw SKU tracking data (e.g. on hand at distribution center, in-transit and received at the store), promotion planning can be more collaborative and ensure plenty of stock in the back room when the promotion actually begins.

That would leave the "last 100 feet" to deal with; and the digital in-shelf technology that is coming will clearly address that, as well as new applications for in-store stocking and clientelling. Both will combine to provide more visibility to the entire supply chain – factory to shelf.

Injecting the "Consumer Factor" Into Trade Promotion

Under the banner of corporate marketing, ecommerce and customer service organizations have flourished, capturing important information about price impact, how their products were used, how recipes are created and a daily deluge of social sentiment data about every aspect of the product, company, and strategy. This data is used to drive product assortment, category management, advertising content, coupon and discount effectiveness, and demographics.

Marketing is a virtual and actual storehouse of consumer intelligence.

Trade promotion? Not so much.

The years of failing to work together have piled up political problems between the sales and marketing organizations resulting in each organization moving at its own pace and with its own plan.

This is the real problem.

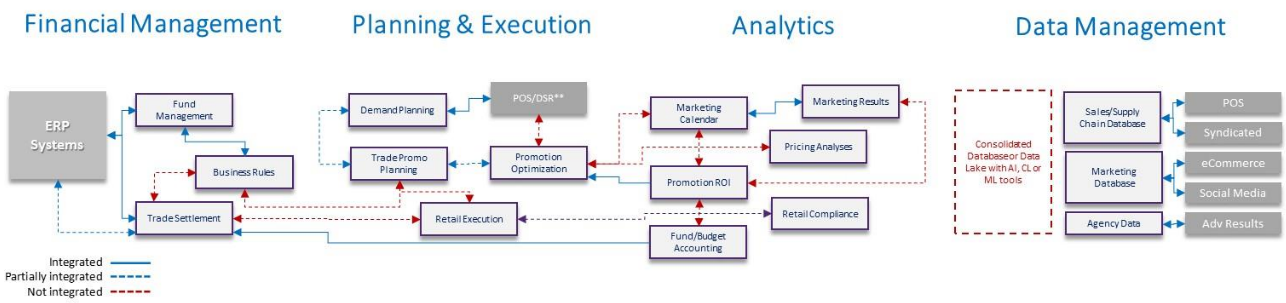
In today's digital environment, the consumer demand signals are more plentiful and available than ever before. Being the second largest line item in a CPG company financials, trade promotion naturally commands a level of respect and focus to generate the highest return possible. But without the combined intelligence and insights this data provides, it is far more difficult to not only create precise and trustworthy promotion plans, but to increase the real ROI achievement from them. Too much money has been wasted in promotions that have been executed out of synch or worse, in direct conflict.

For example, last year in a key week leading into the Independence Day promotion, a major salty snack company ran a trade promotion featuring a deal where if you bought three bags of chips, you got a discount to $1.89 per bag. At the same time, the ecommerce marketing team ran a coupon that required only <u>TWO</u> bags purchased to get a discounted per bag rate of $1.49 each! Today, when consumers become confused, they move on – they don't buy, and they *remember*. That is far too much to lose given the huge spending levels of trade promotion and consumer marketing today.

The answer is not simple, but it is attainable. The promotion performance and supporting plan data identified in the graphic above must be integrated across the entire functional landscape – both consumer direct marketing and sales planners. This will ensure everyone is working with a consistent data set that is clean, harmonized, and aligned.

Another problem is the lack of collaborative planning and sharing of data between internal marketing and sales organizations. All the data mentioned above that is available to the marketing organization could not only positively impact the quality of the trade promotion planning, but it can also help to *align* both the trade promotions and the array of direct-to-consumer promotions done in ecommerce, national advertising, coupons and preprinted inserts to daily newspapers. It is nothing more than a shame that these two organizations have had that "Chinese wall" between them that has been solidified both politically and culturally over the years. What is needed is a major market-shaping force that brings these two groups together.

And, that would be the *consumer*.



Today, across many of the CPG industry trade organizations and press, there is a growing movement – albeit ever so slowly – in the direction of consolidating and aligning trade promotion and consumer marketing data. Promotions are continuing to be planned independently by each group; however, technology is beginning to make this happen. Will it overcome the political hurdles of decades of non-collaboration?

Given the efforts of the trade press and industry associations like Consumer Goods Technology, Retail Value Chain Federation and Promotion Optimization institute and deep involvement from analysts at Forrester, IDC and Gartner, it very well can be overcome. But it will require commitment from the C-level and increased commitments throughout the organizations to join and collaborate more frequently and effectively.

Moving "Big Data" Into Production

As we begin to see the results from the massive investments into "big data" initiatives, there are two glaring problems that come into focus.

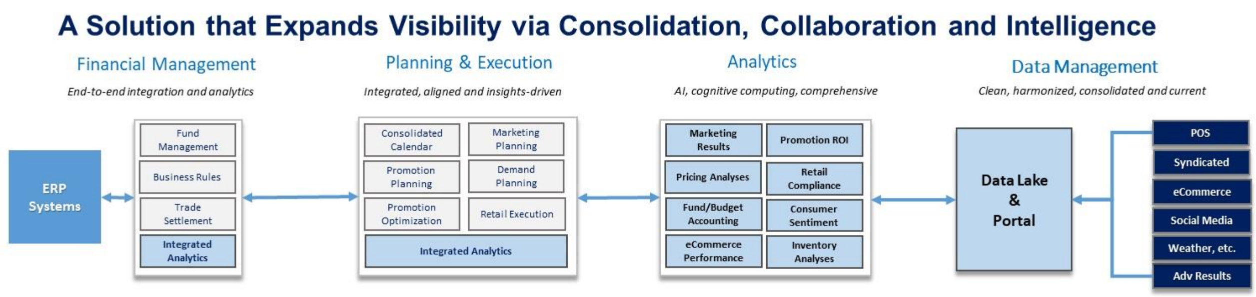
The first problem is bad data. "Garbage in, garbage out" has been a phrase referring to the impact inaccurate or missing data has on any computation, and it especially applies when you consider that, for most of promotion planning, the primary basis for performing "what-if" or even sophisticated promotion optimization scenario models is historical trade promotion performance, which we know is more than a third failure.

This problem is systemic. What we have in most CPG companies is an end-to-end system of functional applications that are neither integrated nor aligned. This might be due to the years of application changes, business unit-driven solution acquisitions and so on; but in the graphic below showing a typical trade promotion process flow, the dotted red lines indicate integrations that should be evident throughout the major functional components of the system. In fact, these dotted lines tell the story – failure to integrate key functions including trade promotion planning, retail execution and marketing with virtually no real cross-functional integration to a single data source.

This lack of integration not only limits collaboration and cross-organizational efficiencies, but the DATA is the victim and, therefore, the users – promotion planners, retail merchandisers, category marketing executives, brand managers, and so on have a lack of intelligence that could be used to make smarter predictions, know and engage the consumer better, and generate precise and trusted predictions of promotion ROI and objective achievement.

Overall visibility across the enterprise is lost, and this is especially a problem for any financial executive that is concerned with the health of the company. With trade promotion spending reaching almost 30% of gross revenues for most tier ONE CPG companies, this is why industry executives placing such a high priority on trade promotion and why they are very concerned that a failure rate of more than one-third of the promotions is simply unacceptable.

The scramble is on within consumer products to integrate, connect, and harmonize all data sources and ensure alignment across the entire enterprise – especially where spending money to reach the consumer is concerned. The chart below depicts a simple, but clear data solution.



Unification and alignment of trade promotion and consumer marketing begins and ends with a consolidated visibility (represented by the light blue areas above) to all data from which the right insights needed to drive the consumer engagement and revenue generation.

It is time to knock down the walls that exist between sales, responsible for trade spend performance, and corporate marketing, responsible for driving consumer engagement. We have the technology and the marketplace mandates to get it done now. Think of the benefit of reducing that 37% failure rate and adding another 10% of sales crossing the checkout scanners.

Summary: Reversing the Trade Promotion Failure Rate

Trade promotion spending is reaching a point where it is no longer acceptable or viable to ignore the fact that more than one-third of all promotions fail to break even. There are four main reasons why this continues to happen:

- Promotion optimization technology is improving, but continues to be inaccurate, difficult to execute and untrustworthy, with inadequate baselines and poor planning practices contributing

- Out-of-Stock conditions during promotions continue in spite of increased supply chain technology and continued spending on OOS analyses
- Lack of alignment between consumer marketing and trade promotions creates channel conflict, missed opportunities, and the failure to consider the consumer/shopper
- Data quality – Too many gaps, errors, lack of harmonization and cleansing, inconsistencies, and inaccurate downstream syndicated data continue to plague promotion planner

For most companies in the consumer goods industry, the political and infrastructural difficulties of uniting the marketing and sales organizations to create an effective collaboration and sharing of data are beginning to e outweighed by the need to engage the consumer in a unified way. Technology, especially data science-driven promotion optimization can certainly accelerate the value and precision of planning and projecting ROI; but new paradigms of thinking will still need to be cultivated among the mid-tier and senior managers that are charged with the day-to-day operations of consumer marketing and trade promotion.

Hand Promotion Management offers a real solution to these problems with our TRADESCOPE evaluation services. With TRADESCOPE, we will review your entire trade promotion infrastructure including processes, technologies, policies and procedures to ensure that it meets and exceeds industry best practices. We welcome your participation in providing solutions across all of these areas and improving the efficiency and effectiveness of trade promotion, increasing ROI on trade spending and building powerful retail collaboration initiatives that lead to success.

Author: **Rob Hand**

Rob's background spans more than four decades of domain expertise across all lines of business and more than 25 industries. Focused on consumer products and retail, Rob has built his own successful companies as well as worked with industry leaders like SAP, Oracle and Capgemini, leading the innovation around consumer engagement marketing, trade promotion, retail execution, category and brand marketing for hundreds of global tier one manufacturers and retailers. As a product innovator, he has created leading edge trade promotion, demand planning, and retail execution solutions across all database and operational software platforms including on premise, cloud and mobile technologies. His work with advanced analytics and data science technology underpins a strong track of success with performance analytics, insight generation and increased promotion spending ROI. Rob is a veteran of the United States Navy and a member of the Trade Promotion Management Association Hall of Fame. He is a long-time musician and an avid sailor. He and his family live in the Texas Hill Country outside of Austin, Texas.