

A PRACTICAL APPROACH TO
**IMPROVING TRADE
PROMOTION EFFECTIVENESS**



Introduction

In the CPG industry, manufacturers are continually placing expensive bets on the likelihood that their trade promotion events, like a buy-one-get-one, will pay dividends for themselves, their retailer customers and their consumers.

CPG companies make these wagers on the basis of a diverse assortment of historical data such as shipments, allowances, sales, lift and much more. They rely on a host of applications – from basic trade promotion management (TPM) to complex simulation systems – to translate the data into actionable, effective promotional strategies.

What has been missing, however, is a practical, straightforward approach to trade promotions that incorporates the right data to bring about real, incremental improvement in promotional outcomes. As a result, CPG firms have often found the expense of trade promotions to be greater than the returns.

Annual spending on trade promotions has doubled over the past two decades to nearly \$200 billion, encompassing between 15% and 20% of sales, according to a study by the Promotion Optimization Institute (POI) and Gartner.¹ Yet almost 67% of promotions in a Nielsen study didn't even break even.²

1. Promotion Optimization Institute, "Charting Your Course to Trade Promotion Optimization," <http://poiinstitute.com/wp-content/uploads/2014/05/POI-Charting-Your-Course-to-TPO-Paper-Final.pdf>

2. Nielsen, "Cracking the Trade Promotion Code," Oct. 2, 2014, <http://www.nielsen.com/us/en/insights/news/2014/cracking-the-trade-promotion-code.html>



The durability of promotions, despite their drawbacks, is driven partly by consumer demand, especially during challenging economic times. “Deals are a fundamental, irreplaceable need of most shoppers,” according to Kurt Jetta, chief executive officer and founder of TABS Group in Shelton, Connecticut.³ Digital marketing has also generated more promotional vehicles, including social media and mobile phones. Finally, promotions are considered the last line of defense against the growing popularity of private labels and the proliferation of stock-keeping units (SKUs).

As Nielsen noted, some manufacturers have managed to create promotions that perform five times better than the least efficient companies. The problem for many organizations remains that trade promotion spending is accompanied by the absence of accountability, stemming from the lack of a broadly applied system for measuring and improving promotion effectiveness.

In a 2014 survey conducted by Advantage Sales and Marketing (ASM), 24 CPG manufacturers executed an average of almost 5,000 promotional events annually at the top 50 retailers – those with more than \$5 billion in sales averaged more than 11,000 yearly events. Yet many of those companies did not analyze the results of these promotions in a systematic and comprehensive fashion. For example, while companies evaluated 72% of their promotions (with shipment or consumption data) at national retailers, they did so for just 43% of events at regional retailers and for only 21% at local merchants.



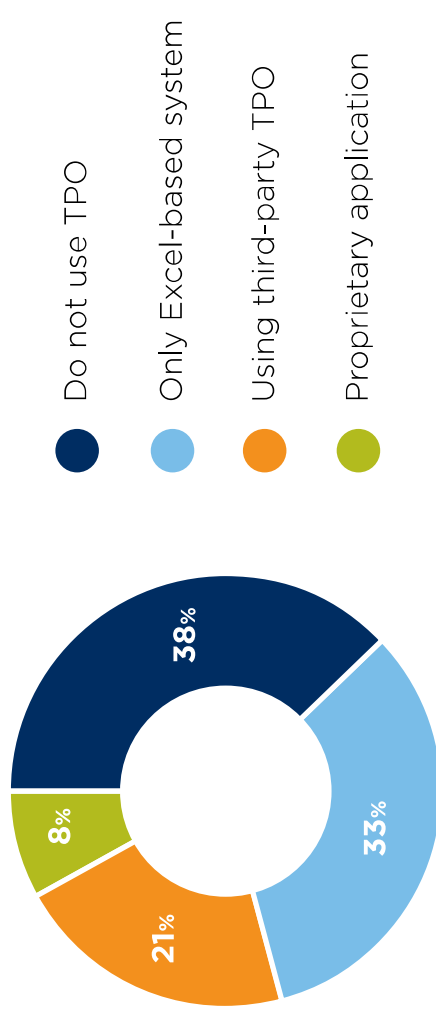
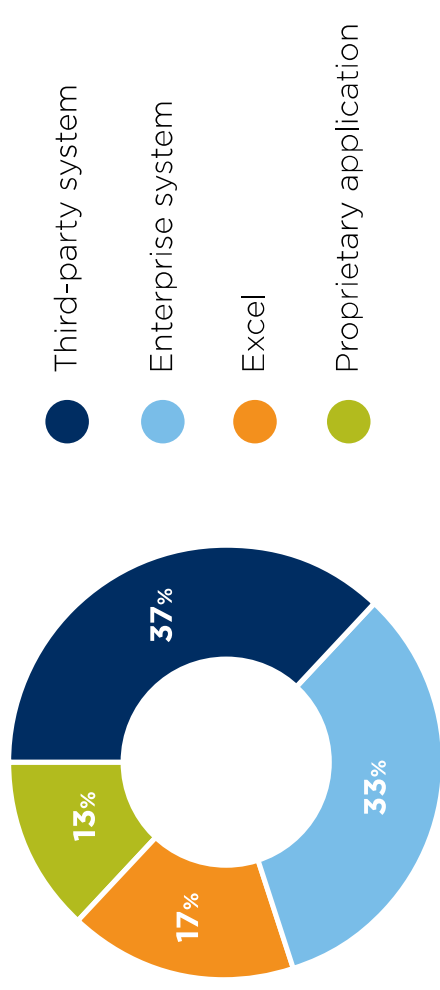
3. Webinar, “The 2014 Consumer Value Study and How it Affects Your Promotion Optimization Strategy,” produced by Promotion Optimization Institute, sponsored by TABS Group.

A Range of Options for Cracking the Code

Another telling indicator of where the industry stands is the type of technologies that CPG companies are using to analyze and improve promotional effectiveness. Most have invested in trade promotion management systems, which enable them to build complex promotional event calendars with retail trading partners, track spending and shipments, and manage deductions and back-end financial reconciliation. In the ASM survey, all 24 CPG firms had some form of TPM, with 37% using a third-party system, 33% an enterprise system, 17% Excel and 13% a proprietary application.

Trade promotion optimization (TPO) systems enable a much more in-depth analysis of trade promotions than TPM, combining financial and consumption (sales) data, to calculate ROI and profitability for both manufacturers and retailers. Yet more than a third (38%) of surveyed CPG firms do not use TPO, along with 33% that employ only an Excel-based system and 8% that have a proprietary application. Just 21% reported using a third-party TPO system to help them understand past results and improve the effectiveness of future promotions.

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- Only **17%** of surveyed CPG firms reported using them
- **8%** use them in Excel form
- **9%** use them as a third-party tool

Reasons that companies aren't using TPO vary. Some lack the software infrastructure needed to support it, such as ERP systems, business intelligence or data warehouses, or access to the data needed to drive it, such as syndicated data.⁴ Cost considerations and lack of technical support may also be factors. Different departments within a company, such as merchandising and operations, have to agree on the process and metrics associated with implementing TPO. And some CPG firms, and retailers as well, may be loath to abandon traditional methods for a more comprehensive and data-driven process.

An even more advanced form of analysis is possible in what's called a trade promotion simulation (TPS) system. It takes multiple data inputs and produces a promotional plan that yields a predetermined volume of sales and profits. True TPS applications, however, have not yet entered the mainstream; just 17% of surveyed CPG firms reported using them, 8% in Excel form, and 9% as a third-party tool. TPS applications are considered a few years away from reaching the point of technical development needed to be everyday tools in the CPG industry.

Given CPG firms' preference for TPM over TPO (and the not-ready-for-prime-time TPS), it's not surprising that the most popular form of promotional analysis derives from TPM. Surveyed companies analyzed the product-shipment data collected by TPM for 91% of their promotions. By contrast, far fewer promotions were examined on the basis of consumption data (60%), financial data (50%) or event appraisals (50%), since TPM systems are not designed to easily analyze this data. For the same reason, a mere 45% of promotions were the subject of scorecarding and analytics.

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4. Newsfactor.com, "Understanding the State of Trade Promotion Optimization," March 2010, by Lorne Schwartz, CEO, Fanbox, former CEO, MEI/Computer Technology Group

Some Essential Elements

Experts point to a number of fundamentals for improving promotional effectiveness, though these elements are often missing in today's technologies. For example, manufacturers need to pay greater attention to the costs of promotions and their effect on margins, in addition to just considering incremental sales, noted Eddie Yoon, a principal at The Cambridge Group in a post on the Harvard Business Review Blog Network.⁵ In general, he believes promotional analysis needs to be much more detailed, at the SKU level, by store, using weekly data.

Collaboration between retailers and manufacturers is increasingly seen as a pathway toward improved promotions. Successful companies are also breaking down silos internally and empowering customer teams to do joint business planning, according to the POI.

As part of collaboration, said Yoon, manufacturers need to change the culture of trade promotion to one of category growth. CPG firms can't be satisfied with boosting their own sales and profits at the expense of a retailer's private label sales and overall category profitability. This may require creative brainstorming on how to attract new consumer segments or incremental usage occasions.

5. HBR Blog Network, "Sell More with Smarter Trade Promotions," by Eddie Yoon, July 19, 2012. <http://hbscblog.com/2012/07/build-better-trade-promotions/>



A Practical Approach

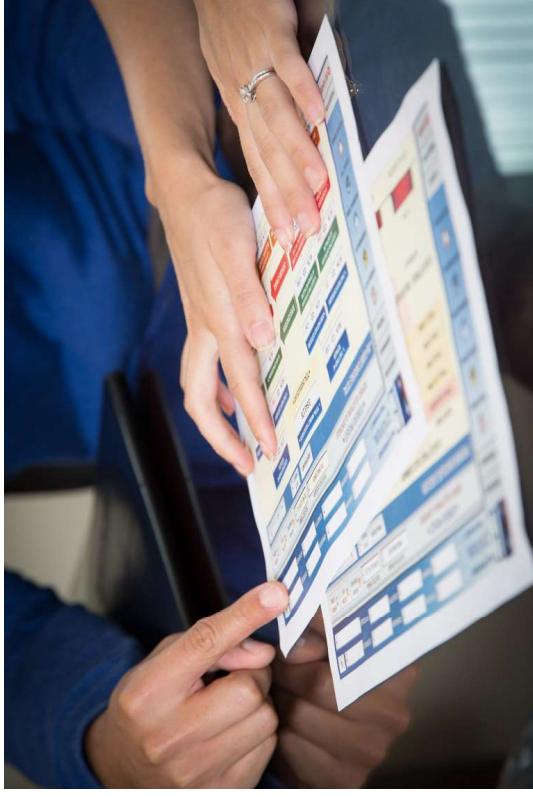
Advantage Sales and Marketing has designed an approach to improving promotional effectiveness along with a proprietary tool - called Causal Opportunity Explorer (COE) - which is a solution that addresses all of the core requirements of TPO in a simpler, faster and more practical manner.

In essence, COE combines 104 weeks of SKU-level consumption data (sales, share, causal, price points, lift), with comprehensive financial data (case costs, allowances, bill backs, etc.) - into one seamless and actionable view. It uses this and other data to calculate metrics that can be used to evaluate a promotion's effectiveness, retailer return on investment, cost per incremental case sold, brand and category sales lift, retailer/manufacturer profitability and subsidized volume (what would have sold even without the promotion).

In addition, COE ties the quantitative data to all the qualitative information associated with each promotion and retailer, such as time frames, ad vehicle, causal support (display, feature and TPR), competitive activity, even weather, so that an assessment can be made on what worked, what didn't, where and why.

COE uniquely provides analysis of individual retailer promotional events and then rolls these events up into robust performance scorecards. This enables sales and marketing teams to better understand key promotional strategies and tactics to deploy against future events to improve retailer and manufacturer sales and profitability while delivering more impactful promotions for their mutual shoppers.

Several CPG firms are employing COE to generate post-promotion insights that bolster their sales and joint business planning processes. Church & Dwight identified multiple successes where using the tool to evaluate its promotional effectiveness has led to incremental volume.



Conclusion

COE is a collaborative, iterative system that keeps accumulating relevant data in a continuous process of winnowing down promotions to what's best and most effective. In this way, the application is filling an industry need for a practical, hands-on tool that brings TPO to an understandable level, incorporating the key data points that allow for a more robust, widely applied promotional analysis than what most manufacturers are doing today.

There will always be a level of uncertainty surrounding the investments CPG firms make in trade promotions. But by leveraging the right data in a clear, easy-to-apply fashion, companies stand a far better chance at making promotions succeed for the retailer, the consumer and themselves.



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