THE IMPACT OF TRADE PROMOTION ON CUSTOMER PLANNING AND EXECUTION

eBook

info@vistex.com | www.vistex.com

Vistex®

Now it all adds up™

ADDING UP THE TRUE POTENTIAL OF TRADE FUND SPENDING

Executing meaningful trade promotions is an extremely high priority for both manufacturers and retailers, and yet studies show that the processes related to them are largely broken. Consumer Products (CP) manufacturers consistently spend more than 20% of net revenue on trade promotions without realizing the expected returns for that level of spend.

Most everyone in a consumer products organization is impacted by promotion spend. Some teams are responsible for planning and forecasting promotions, while others are tasked with optimizing their execution. Others are challenged to make sure that products affected by a promotion will be available when consumers are ready to purchase them. Entire companies have evolved around creating solutions and consultative services to facilitate the management of trade funds and their impact on business and behavior. Data management and services companies are now able to gather more data than ever, at a more granular level, to assist in the assessment and predictability of specific promotional outcomes.

Despite all this effort to improve trade fund utilization, most manufacturers and retailers will acknowledge that value is being "left on the table." Proper planning and execution are therefore essential to achieving more impactful promotions. But the need to build an annual sales-volume forecast for each customer is equally critical, to ensure that the enterprise has complete visibility into profit and margin performance as it moves forward. Yet, despite the trend of increasing trade promotion funding over the years, organizations haven't seen an increase in value to the business – neither at the product manufacturer level nor at the retailer-distributor levels. This paper provides an overview of these critical business processes and the complexities involved in getting it right.

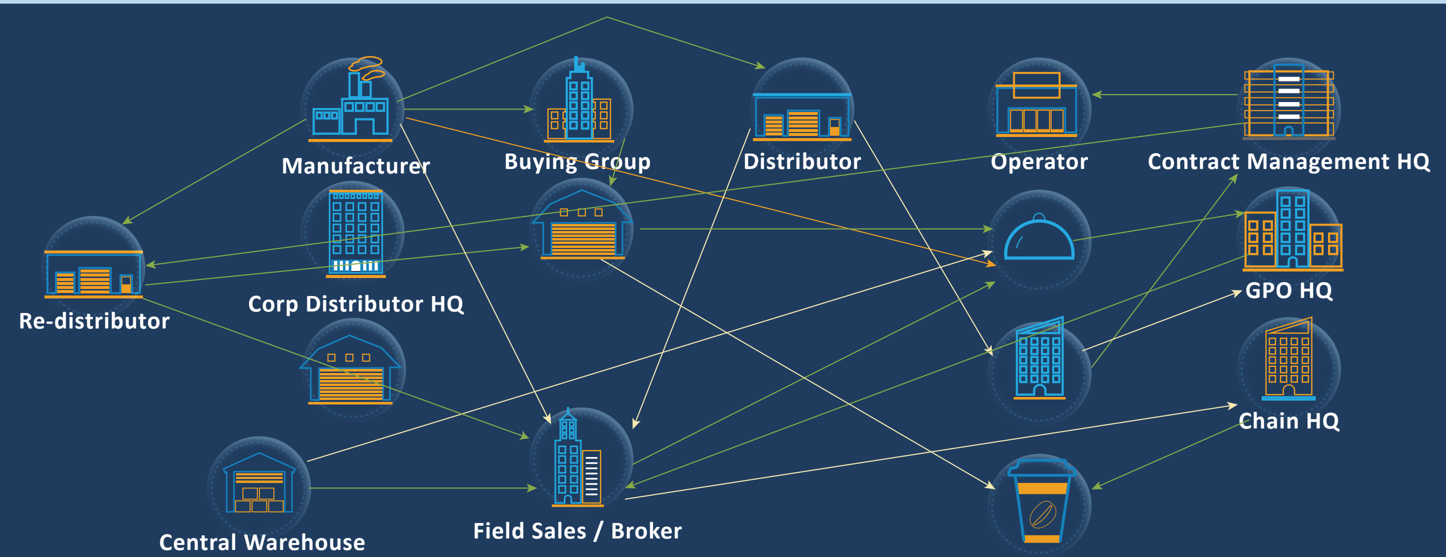


TABLE OF CONTENTS

INTRODUCTION

Trade promotion spending has increased at a steady rate in recent decades. Originally, trade promotion dollars were intended to entice consumers to try a product they had not purchased in the past with a price discount promotion opportunity. It was common to follow that promotion with a similar event, with the expectation that consumers would repeat their purchase and eventually become loyal brand shoppers.

In the 1960s, consumer products manufacturers were spending approximately 6% of annual revenue with their customers (retailers, distributors, wholesalers) on a variety of trade promotions and spend types, in an effort to grow their brands' market share, while also helping their customers increase consumer foot traffic and basket ring.

$636 BILLION[1]
annual US CP sales

$200+ BILLION[2]
annual US CP trade spending

72%[3]
of U.S. trade promotions fail to break even

86%[4]
of CP manufacturers are unsatisfied with their ability to manage trade promotions

85%[5]
have trouble getting retailers to execute promotions as agreed upon

93%[6]
say promotion planning is too time-consuming

SOURCES
[1]Statista: U.S. CPG sales 2015-2020
[2]strategy&: "Zero-based trade for CPG leaders" (March 8, 2017)
[3]Nielsen: Trade Promotion Performance (2016)
[4, 5, 6]Promotion Optimization Institute: POI TPx Vendor Panorama (2017)

“CP manufacturers dedicate 22% of average annual revenue to trade spending”

Today, trade spending adds up to 22% of annual revenue, according to a 2017 Nielsen survey of 110 CP manufacturers. Another study showed that upwards of 60% of trade promotions in the Western world’s major markets do not deliver break-even results, and in the United States the failure rate is 72%.

This growth in trade spend has been caused by a change in strategy; manufacturers utilize these funds as competitive leverage for key promotion time periods, and typically they’re willing to spend whatever it takes to maximize volume during the promoted time frame. This has obliged most CP manufacturers to reconsider their spending strategies, and by utilizing available data, to try to make more profitable trade spend decisions. But reality indicates that most CP manufacturers are repeating historical promotion activities, regardless of their ability to create incremental value. Often, this is being driven by the tedious and manual labor involved in just getting through the planning processes to get to an approved plan.

Given the amount of money being funneled into trade promotions, and the fact that such a small percentage of those promotions bring value, it’s clear that there is a need for improvement. This poor performance is puzzling when considering that over the past quarter century, CP manufacturers have invested in new technologies, better data (both inside and outside their enterprise), more powerful software, and leading-practice business process design. But they still face the same challenge they’ve always faced: an imperative to link customer/promotion planning with demand planning and brand programs/events, supported by value metrics that will drive improved decision making.

CP manufacturers must also address the fact that consumers now enjoy additional “paths to purchase,” which oblige manufacturers to provide omnichannel promotion and pricing support in order to help them remain competitive and grow their businesses and brands. The merchandising “pie” is not getting bigger, but it does need to be allocated differently to reflect changes induced by the arrival of digital commerce.

> CP manufacturers face an imperative to link customer/promotion planning with demand planning and brand programs/events

Today's consumers are very adept at making their purchase decisions, and they often "pantry load" when their favorite products are on promotion. Manufacturers must reconsider their trade promotion spending strategies and think more holistically about their approaches, and offer consumers a more complete brand experience not purely driven by price discounting, but aimed at acquiring and maintaining their loyalty to branded products via alternative incentives.

For example, if a grocery store is looking to drive donations to the local foodbank for the holidays, it may offer consumers points on their loyalty card program for each product donated to the cause. Or a retailer may offer cooking classes to consumers who purchase a particular brand of product, coupled with discounts for future purchases. Different generations shop and consume their preferred brands very differently, so understanding and executing across all consumer types could mean the difference between long-term success and failure.

The result of this "blurring of channels" means more complexity for executives. In order for manufacturers and retailers to be successful, organizations can implement trade promotion planning (TPP), a concept that offers a more holistic approach to connecting promotion funding to volume forecasting via meaningful metrics.

TPP: ADDING UP THE PLAN

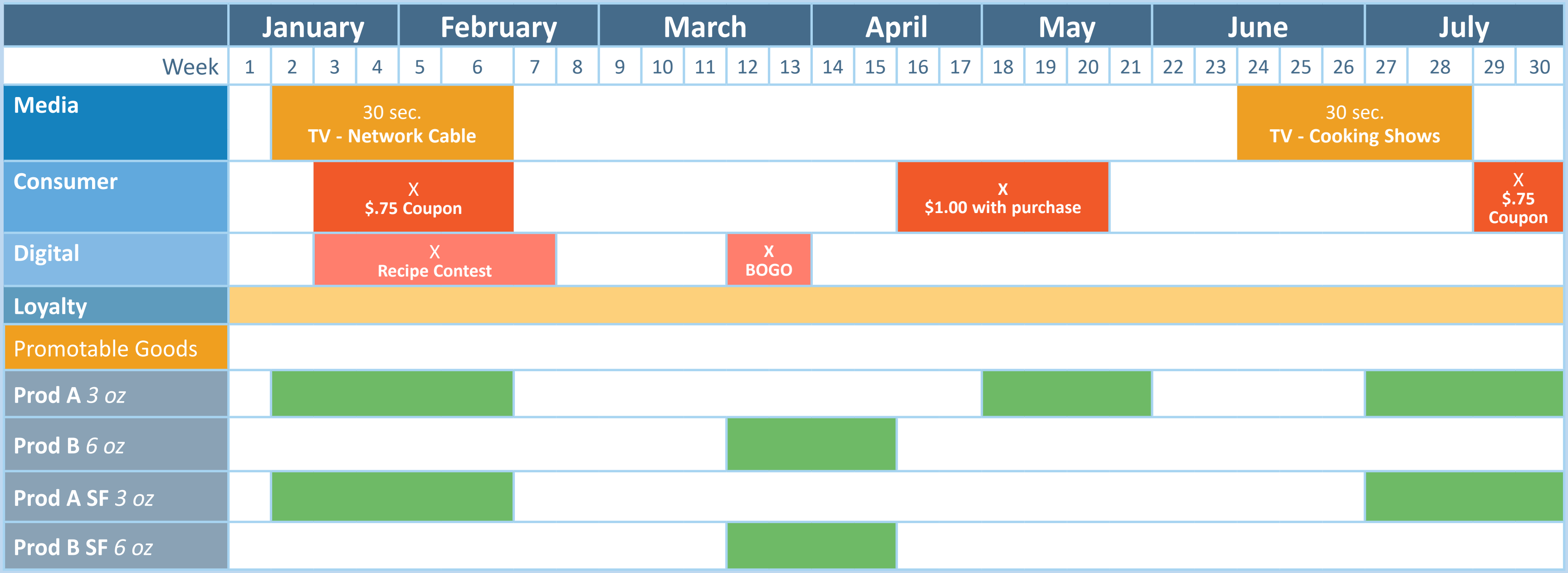
Trade promotion planning (TPP) is critical for manufacturers, because capturing the expected volume impact of each promotion provides key data to other functional teams within the enterprise, e.g., spending liabilities for finance to track, volume forecasts for demand planners to incorporate into Sales and Operations Planning (S&OP) processes, value metrics for tracking performance, and more. CP manufacturers undertake an annual plan development process that results in the annual customer merchandising calendar. This calendar is developed for each brand, with specific volume and trade funding objectives or targets that are often determined by cross-functional management teams tasked with achieving the annual targets handed down by senior management. These teams need to consider volume, margin, return on assets, return on investment, or whatever KPI is established as the goal.

One of the key analytics performed to drive the annual plan is to determine the performance of each component of the "media mix," which is comprised of the following promotion/messaging/event types:

Marketing – TV, radio, print, billboard, etc.
Consumer – Coupons, sweepstakes, continuity programs, etc.
Digital – Loyalty/Reward programs, Facebook discounts, e-commerce discounts, etc.
Trade Promotion – Temporary price reductions, in-store displays, ad/feature, slotting fees, incentives, etc.

Trade promotion planning involves much more than simple price markdowns

Annual customer merchandising calendar used for planning and forecasting



This analysis of performance history for each customer/product is designed to provide key insights::

- **Did the events take place as planned?**
- **Were the committed funds spent?**
- **Were the forecasted revenue/volume targets achieved?**
- **Were these events profitable?**
- **How does each event rank on select metrics for value?**
- **Which customers had the greatest/least success in growing volume/share?**

Historically, marketing, consumer, and digital components are employed to increase brand awareness and confidence. Trade promotions are intended to ensure that products are available, at a special reduced price, at a time when the consumer is ready to purchase.

As you might imagine, synchronizing all of this analysis, planning, execution, settlement, and evaluation activity can be a huge challenge. CP manufacturers have always conducted their business with support from these known processes and hand-offs between teams. But, despite the fact that technology has grown more sophisticated and available data, more granular, companies often fail to fully assess and develop the best approach to taking advantage of these resources. Many companies also struggle to align motivation and incentives across functional teams impacted by these processes and decisions.

The result is that true enterprise collaboration does not occur, due to timing issues and flaws in manual processes. In addition, enterprises do not have the ability to truly value their spending (post-event analytics), beyond perhaps the top five promotions across the top three customers. Full performance tracking and analysis for all promotions has been too unruly for most to manage effectively. This, in turn, results in each team basically repeating the previous year's plan, with some tweaks, and still not realizing the desired return.

ANATOMY OF A FAILED PROMOTION

Recent surveys across multiple sub-industry segments indicate that a majority of CP manufacturers fail to see improvements in trade promotion results. Promotions fail for any number of reasons, such as competitor overlap, misplaced display execution, insufficient price discounts, too little time between promotions, out-of-stocks, or mispriced executions. And if no one in the organization recognizes that a promotion is flawed – and if that promotion is run repeatedly – then it is certain to fail not just once, but repeatedly.

Consider promotion out-of-stocks. We've all experienced walking into a store looking for an item advertised as "on sale" only to find no product available on the shelf, or an alternative display location. Hence, the out-of-stock condition. Faced with this situation, consumers have several options:

- Ask the store manager if there is more promoted product in the back room that could be brought out to the shelf
- Purchase an alternate, branded product (different size, flavor, type – not on special price)
- Purchase a competitor's product instead
- Purchase the product at a later visit, regardless of whether or not it's still on promotion
- Ask the store manager for a rain check on the promoted product
- Leave without making a purchase and go to another store to make the purchase
- Rage against the store on social media, tell all your friends about the miserable shopping experience, and urge them not to waste their time there.

Below is a quick calculation outlining potential revenue loss from a promotion out-of-stock:

A two-week promotion is forecast to deliver **$100,000** in revenue, for a promotion spend of **$20,000**

The actual promotion experiences an **18%** out-of-stock rate across the two weeks

Lost revenue: **$18,000** (**$100,000** revenue forecast multiplied by the **18%** out-of-stock rate)

Unrealized promotion spend: **$3,600** (**$20,000** promotion spend multiplied by the **18%** out-of-stock rate)

The negative out-of-stock impact on the brand for the two-week promotion period is thus $21,600. That's a significant hit, but the longer-term implications caused by potentially negative consumer responses could increase lost revenue still further.

This is an example of a single promotion, but imagine the impact on the CP manufacturer when executing hundreds in a calendar year. It becomes critical that the forecasting, delivery of product to store, performance execution and post-event analysis be connected in a systematic fashion, so that teams across the enterprise can quickly identify opportunities to improve lagging performance.

Taken one step further, think of the retailer or wholesaler who is executing thousands of promotions across all the products they stock for the manufacturer, plus in many instances their own private label products. The missed revenue opportunities and wasted promotion dollars add up very quickly.

By defining and establishing a consistent approach to how you analyze and measure performance – not only for each promotion being executed, but also the entire customer plan for spend and volume – enterprises can begin to gather key insights that will lead to better decision making during the next cycle. Post-event analytics (PEA) are a must, with well-defined metrics for value so that promotions can be compared to each other and ranked for value and impact.

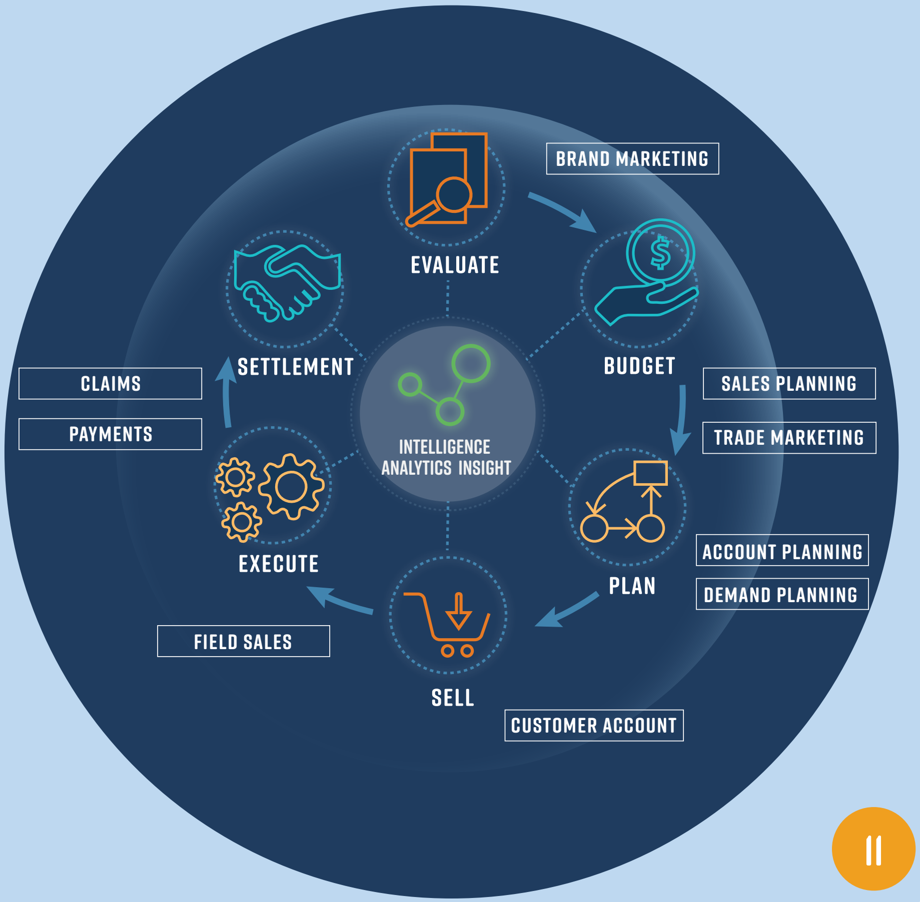
CAPE: LEADING-PRACTICE PROCESS AND BEHAVIOR

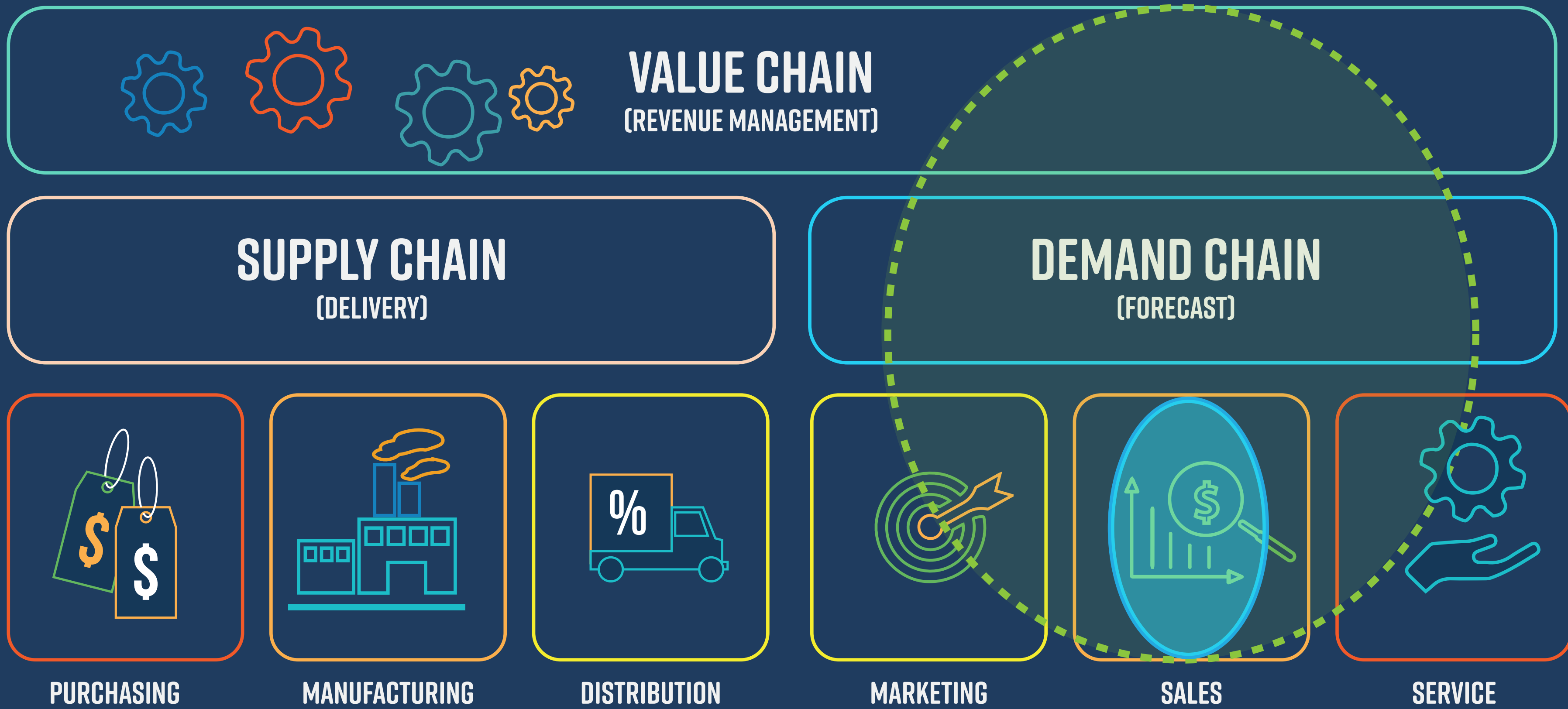
Achieving success in this complex planning and spending environment requires CP manufacturers to commit to a standard process and behavior definition of what trade promotion management truly involves and affects. What the industry calls Trade Promotion Management/Optimization (TPM/O) would be more accurately defined as the Customer Annual Planning and Execution (CAPE) cycle. As you would expect, there are numerous touch points across internal functional teams, as well as external collaboration with the customers/partners, when it comes to delivering value to the consumers.

In building out your plan to deliver these capabilities to your customer-facing teams, you should consider taking these actions to create a leading-practice approach to improving efficiency and profitably growing your brands:

- Understand the CAPE business cycle
- Clarify the functional implications and how information is distributed to each user
- Identify the decisions and accountability of each user in their role
- Define and formulate metrics that will support those decisions
- Define and formulate insights that will drive improved decision making
- Acquire and stage the required data within a demand signal repository (DSR)
- Align KPIs across all functional teams – one goal, one purpose, one success
- Provide post-event analysis that quantifies how each promotion performed against targets

The CAPE cycle: Customer Annual Planning & Execution
Volume and trade spend forecasting focused on profitable growth





While CAPE is typically driven by the CP manufacturer's sales organization (solid blue line), it influences and is influenced by several other organizations (dashed green line)

ADDING INTERNAL ALIGNMENT TO PLANNING HIERARCHIES

One of the greatest challenges is gaining and maintaining senior management support for the entire journey around leading practices. Often this commitment only carries the enterprise to the completion of the first stage of implementing a new solution set, but experience has taught us that getting to where you want to be isn't a simple "one step and done." It requires a long-term strategy that can survive across several years and multiple organizational changes, because the process remains in place even while the players come and go (which they often do).

In order to achieve the speed and efficiency goals of the enterprise, functional teams involved in or touching the CAPE process must come together and align on a SINGLE planning hierarchy for customers, products, geographies, organizations, channels, divisions, and time frames. This single hierarchy should outline which products are sold by which customers, through which channels, by which sales people, in which states/regions, and in which time frames. It should also incorporate how other enterprise teams look at products and customers in their planning frameworks.

By defining and agreeing to this single planning hierarchy, information sharing during business-planning cycles becomes a straightforward affair, without the need to manipulate one team's data in order to make it usable for another team's purposes. Given that there will be only one planning hierarchy, it should be formulated at the lowest level of granularity, and reach to the top of the corporation. The following table includes examples of the aspects of hierarchies across products, customers and geographies:

	Account Manager	Demand Planner	Brand Manager	Finance Manager
Geography	Sell to Account	Ship to Account	Market	State/Region
Product	Promotable Group	UPC (case)	Sub-Brand	Brand/Division
Forecasting	Consumption	Shipments	Revenue	Net Margin
Time Period	Weeks/Months	Weeks	Months	Quarters
Planning Cycle	52 Weeks	13-26 weeks	12 months	12 months
Key Metrics	Incremental ROI Trade Spend Rate Profitability	Weeks of Stock Inventory Turns Full Orders	Market Share Revenue Margin	Net Sales Net Margin Return on Capital

Integrated business planning serves as a "single source of truth" across the company

Reporting hierarchies, on the other hand, can have many forms, as users are now looking at multiple performance criteria, which can be aligned with how the plan was formulated, but can also be viewed across any aspect of product, account, organization, or time-based on the intention or responsibilities of the person consuming that data.

As you work to create an annual plan/forecast that will allow the enterprise to reach its corporate KPIs, moving plan information from one group to the next is typically what slows down the decision making/planning processes. By putting the right information in the right users' hands at the right time, planning behavior can become much more dynamic and timely. Collapsing the planning timeline gives users time to improve on the execution of the plan, and thereby increase the likelihood of achieving the company's annual goals and objectives.

COLLABORATIVE CUSTOMER RELATIONSHIPS ADD UP TO SUCCESS

The consumer products space is extremely competitive. Each product seeks the sweet spot within the consumer segments most important to that product's success. Through a combination of media messaging tools, merchandising, and price-point discounts, manufacturers depend on a high degree of execution from retail/customer partners to be successful. Connecting and aligning critical brand messages (controlled by manufacturers) with point-of-purchase execution (controlled by partners) is often the primary contributor to the successful achievement of both partners' business objectives.

Many retail/customer partners face a daunting challenge when it comes to receiving and executing all of the promotion and merchandising offers/contracts offered by multiple manufacturers. Providing meaningful insights and optimal programs will raise manufacturers to a higher level of collaboration, and help them grow their partners' business. This is done in combination where manufacturers can drive more consumers into the partner's shopping environment – whether brick-and-mortar or online – and also increase the "size of basket" for each consumer completing a purchase. Providing consistently successful and profitable trade promotions to each retail/customer partner will improve the manufacturer's relationships with those partners, and facilitate more collaborative planning.

“Connecting and aligning critical brand messages (controlled by manufacturers) with point-of-purchase execution (controlled by partners) is often the primary contributor to the successful achievement of both partners' business objectives”

THE CRITICAL ROLE OF SOFTWARE

CP manufacturers need software solutions that enable them to design, document, and standardize CAPE processes in a way that contributes to the growth of their partners' businesses. An effective solution will provide the accuracy, consistency, visibility, and insights necessary to ensure that critical data is current, and aligned with specific processes and planning decisions required of each team member involved in the CAPE process. In addition, by embedding the solution into the overall flow of the enterprise, the data required by one or more teams is available to all, from a single source. This, in turn, reduces redundancy, errors, and inconsistencies, and makes your users more efficient and nimble.

You can benefit from defining your CAPE process and decision-making criteria, as driven by your business rules today. This enables your solution platform to perform the mundane, manual business operation tasks as your users identify key insights. This ensures you make meaningful business decisions positively impacting your brands' growth and your customers' growth.

Vistex offers solutions that allow enterprises to more effectively manage their programs. With a CAPE platform in place, your business gains a fuller understanding of the impact of their decisions on revenue management strategies and objectives. From the simplest "one-to-one" promotions to the most complex "one-to-many" promotions, the Vistex approach to servicing organizational needs at any point in the annual cycle – pre-planning, plan to forecast, execution, settlement, track and monitor, checkbook management, and post analysis – is unsurpassed. In addition, Vistex solutions provide daily monitoring and tracking of performance against the plan, allowing your users to see what is working and where challenges may arise. Being able to nimbly adjust the remaining plan is paramount to reaching your annual objectives for volume, revenue, and profit. Vistex is here to help you achieve your leading practice behaviors.

CONCLUSION

All consumer products manufacturers seek to gain control over their trade promotion behavior and improve success. Understanding what works, what doesn't, and where the process or analytics break down, is critical to designing a successful approach to delivering more profitable brand and category growth. By understanding the scope of what is involved with CAPE and building out a clear and complete plan for a leading-practice enterprise, manufacturers will not only reach leading-practice status, but will also help retail and customer partners grow their businesses.

ABOUT VISTEX

Vistex solutions help businesses take control of their mission-critical processes. With a multitude of programs covering pricing, trade, royalties and incentives, it can be complicated to see where all the money is flowing, let alone how much difference it makes to the topline and the bottomline. With Vistex, business stakeholders can see the numbers, see what really works, and see what to do next – so they can make sure every dollar spent or earned is really driving growth, and not just additional costs. The world's leading enterprises across a spectrum of industries rely on Vistex every day to propel their businesses.

Vistex®, Go-to-Market Suite®, and other Vistex, Inc. graphics, logos, and service names are trademarks, registered trademarks or trade dress of Vistex, Inc. in the United States and/or other countries. No part of this publication may be reproduced or transmitted in any form or for any purpose without the expressed written permission of Vistex, Inc. The information contained herein may be changed without prior notice.

© Copyright 2020 Vistex, Inc. All rights reserved.

info@vistex.com | www.vistex.com

ABOUT THE AUTHOR

Gary Adams is Industry Principal for Consumer Products at Vistex. He brings more than 40 years of experience and knowledge of CP sales, marketing, data, and analytics processes and behaviors to help prospects and clients define and design "leading practice" workflows which align with Vistex solution capabilities. Gary has developed extensive expertise through his work in manufacturing (General Foods, Kraft, Unilever, Coca-Cola, Anheuser Busch, Colgate, and many others) as well as data (ems, Retail Velocity), solutions (AIM, SAP, Accenture CAS, Vistex), and consulting (Accenture, Clarkston Consulting). Gary has earned a position of trusted advisor to many CP manufacturers as they look to redesign process, select solutions, define metrics and KPIs, and implement new tools and develop their roadmaps.

Software | Services | On-Premise | In Cloud

Vistex® Now it all adds up™