CGT Straight Talk

EXPERTS DISPEL MYTHS AROUND TPM

Navigating Trade Promotions from Spreadsheets to Optimization

MYTH VS. REALITY

As more consumer goods (CG) companies turn to technology to help manage trade promotions, many are looking beyond basic tracking and are looking for TPM and TPO to elevate trade spend to a strategic tool. However, the added complexity and increased sophistication has caused confusion in the market. Some believe that spreadsheets remain a better tool for sales and that TPO is no better than a gut instinct. Others have heard that TPO is limited to longer term planning initiatives, or that by implementing TPM all promotions will have a positive ROI. We have gathered the perspectives of leading authorities in the field to guide you through the fog and help present the reality of the opportunity.

JOE BELLINI
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"Applying predictive analytics as part of the trade promotion management lifecycle will drive the desired business optimization."

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Experts Dispel Myths Around TPM

▸ AFS Technologies

MYTH

Optimization is limited to strategic or annual planning modeled at the regional level or across top-tier retailers.

REALITY

Optimization techniques have historically been used by consumer goods manufacturers to analyze terabytes of data to predict the likely outcomes of future trade promotions as part of their strategic and annual planning cycles. These techniques are now evolving to where they can provide close to real-time insights given recent advancements in the field of predictive analytics.

Manufacturers must react more frequently to capitalize on impromptu opportunities from retailers, which may require snap judgments regarding the type of promotion to run. Often, there is little or no historical data to make fact-based decisions. Given the pressure to maximize the value of trade dollars, this can be a gut-wrenching situation for any account manager.

Applying predictive analytics as part of the trade promotion management (TPM) lifecycle will drive the desired business optimization. The key is to integrate pricing and promotional models within the TPM system so account managers can easily calculate a lift factor leveraging base volume to forecast incremental volume — whenever needed and not only as part of an annual planning process.

AFS Technologies has developed an integrated solution with Nielsen to calculate lift factors within AFS Trade Promotion Management Retail (TPM Retail). With a subscription to Nielsen's store-level models, a manufacturer can click a button in AFS TPM Retail to determine optimal pricing strategies: beat competitors with price packs, define thresholds, optimize base price, or mine the gaps.

To date optimizing through predictive analytics has been somewhat complex. But by integrating a library of models within a TPM system, it creates an easy-to-use and cost effective approach. Ease of use allows manufacturers to prove the concept by modeling single accounts and products.

Enhancing optimization through predictive analytics as part of the broader TPM lifecycle creates the advantage of near-term revenue opportunities and ensures fact-based trade investments. ❖

Experts Dispel Myths Around TPM

CPGToolBox

MYTH

It takes an excessive amount of time to input hundreds of trade promotion plans into a systemized tool. Sales needs to focus its time on selling, not relearning how to build plans in an overly complicated TPM solution. It's simply easier and faster for Sales to execute planning on spreadsheets.

REALITY

Yes, the overall process of formulating promotions across multiple retail partners is time consuming. Despite TPM technology advancements, CPG manufacturers continue to deny the benefits that come from planning directly in a TPM solution because 'Sales doesn't have time.' That objection begs an answer to a major question: Why is it acceptable for Sales to dedicate time formulating promotional events in a static spreadsheet, but not into a tool offering company-wide access and visibility?

The planning process typically begins with Sales spending hours plotting out promotional events on a legal notepad. Next, Sales devotes days to inputting handwritten plans into a spreadsheet. Before the plan can be finalized, time is squandered fixing duplicates and identifying mistakes cause by human error.

The fact is, planning trade events in a true TPM tool does not take any longer then planning in a spreadsheet. A best-in-class solution will actually help Sales build smarter promotions. An intuitive tool that outputs real-time data enables Sales to plan promotions more diligently, identify gaps and actually see what's working. Sales can also experiment with new promotions based on facts, not guesswork or gut instinct. Plus, cloning functionality in a TPM solution eliminates the need to rebuild plans from scratch each year.

A salesperson in the CPG industry spends 30 percent of his/her time on trade administration - matching deductions to promotions, verifying proof of performance and resolving invalid deductions, to name a few. A TPM solution will streamline the entire trade process and empower Sales to plan, execute and settle trade activities more efficiently.

In reality, sticking with spreadsheets because it's supposedly faster for Sales is a convenient scape goat for change management. Change management is a true hurdle, but senior leadership must remain steadfast despite complaints from Sales. ❖

RICK PENSA
CEO/President
CPGToolBox

"The fact is, planning trade events in a true TPM tool does not take any longer then planning in a spreadsheet."

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Experts Dispel Myths Around TPM

NeoGrid

MICHAEL WILLIAMS
Senior Solutions Consultant
NeoGrid

"With more in depth analytics, sales professionals can quickly identify their top performing promotions and share best practices cross-functionally to drive true ROI for their promotional plans."

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MYTH

All promotions drive incremental revenue and increase market share

REALITY

It is a commonly believed myth that retail promotions always drive incremental revenue and market share for consumer goods companies. However — with recent innovations in big data analytics — we are discovering that many promotions are falling short of a positive return on investment (ROI). More concerning is the rate underperforming promotions are being re-planned — season over season — due to an ineffective understanding of promotional performance.

What we often come across when consulting with sales professionals, is that they are not provided robust tools for planning and executing effective promotions. It is common for data to be dispersed across spreadsheets, internal systems and customer portals instead of a comprehensive solution that packages insights such as ROI, projected lift and actualized promotional sell-through. The disparate systems leave sales teams in a position where they are not able to quickly assess different levers for facilitating incremental growth through the management of margin, volume and fixed costs.

Most sales teams are not in a position to effectively evaluate promotional performance, making it commonplace for underperforming promotions to be put back in the plan for the following year — thus repeating the cycle while tying up critical resources. With more in depth analytics, sales professionals can quickly identify their top performing promotions and share best practices cross-functionally to drive true ROI for their promotional plans.

Since promotional planning is a comprehensive and collaborative process — spanning well beyond the sales team — executing a promotion successfully requires inventory to be allocated, transported and displayed. Cross-functional communication channels must be established to collaborate with Logistics, Marketing, and Demand Planning. The business must act cohesively within a collaborative solution to increase sales and effectively execute its promotions. ❖

DAVID GANIEAR
Partner
PwC Strategy&

"We believe a new Zero-Based Trade (ZBT) approach is required to right-size trade spend and optimize ROI."

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PwC Strategy &

MYTH

Large (and growing) trade budgets that drive negative returns are an unavoidable reality in today's demanding retail environment.

REALITY

The consumer packaged goods (CPG) industry is at a crossroads. Trade budgets have reached unsustainably high levels and typically drive negative ROIs. At the same time, 3G Capital has set a new standard for generating shareholder value with aggressive cost cutting and pricing and trade discipline, putting the industry on notice. These forces have set the stage for radical change.

We believe a new Zero-Based Trade (ZBT) approach is required to right-size trade spend and optimize ROI. This "clean sheet" approach starts with a rapid diagnostic to benchmark trade capabilities and size the prize of optimizing trade via ZBT. In our experience, pursuing ZBT can drive significant profit improvement in the range of 10 to 20 percentage point trade ROI increase.

Next, segmentation of trade spend usage (e.g., merchandising, EDLP, list price subsidization) allows for surgical approaches to right-size based on key characteristics. In particular, fit-for-purpose strategies can be used to right-size addressable spend based on a company's trade ROI and market power in each of its categories.

Once trade budgets have been rightsized, a series of steps should be taken to optimize remaining spend. A performance-based funding structure funds customers based on objective criteria versus typical year-over-year budgets, ensuring that manufacturers "win with the winners" versus "lose with the losers." Deploying analytically rigorous bottom-up planning supported by predictive analytics (i.e., SWAT planning) helps companies break free from typical copy-and-paste planning to drive new optimized plans. Closing the loop with post-event analysis drives an understanding of which events worked / did not and avoids blindly running the same events each year.

A set of key enablers, including strategic processes, organization / incentives, analytics, systems, and overall transformation, set the foundation to drive ZBT on a sustainable basis. Following this approach allows manufacturers to dispel the myth that today's broken trade practices are an unavoidable reality. ❖

Experts Dispel Myths Around TPM

T-Pro Solutions

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"A comprehensive Trade Promotion Optimization program provides functionality beyond the limited transactional observations made in TPM systems."

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Optimizing Promotion Return

MYTH

The investment in Trade Promotion Optimization is not worth the dedication of time and incremental staffing resources because inaccurate or disparate data makes optimized results no better than a "gut" feeling.

REALITY

Some CPG companies are hesitant to consider Optimization as a justifiable investment for post-event analysis and promotion planning. This stems from their belief that the complex process leads to inaccurate results and misinformed decisions. While concerns about accuracy are understandable, the hesitancy is unnecessary. A comprehensive Trade Promotion Optimization (TPO) program provides functionality beyond the limited transactional observations made in TPM systems.

Data harmonization – Optimization, like any data analysis, begins with having clean integrated data. The ability to tightly integrate POS, shipment, pricing, cost-of-goods and promotions spending data in an intelligence center eliminates errors, and increases the data efficacy for analysis and planning, without manually intensive or redundant data entry.

Accurate baselines and lift coefficients – A good TPO solution enables the user to adjust baselines impacted by data anomaly, resulting in more accurate post analysis of incremental volume and profit. Historically, trade marketing teams are reliant on syndicated data as the sole provider of baselines.

Real-time, quantifiable post-event analysis – With improved data accuracy trade promotions shifts from a transactional departmental activity to an analytical organizational initiative. Quantifying ROI and key KPIs on a granular event level and assessing overall plan performance in real time, removes the uncertainty out of future trade promotion investment.

Informed and optimized planning – Trade promotion optimization is not complete without predictive planning. The increased access to historical data combined with predictive models empowers trade marketing teams to perform what-if scenarios with the potential to optimize for manufacturer and retailer revenue, profit, and volume.

With the visibility and control that Trade Promotion Optimization gives your organization, Optimization shifts from a resource drain to a revenue management must have. ❖

THIERRY SOUDEE
CEO
UpClear

"...Reporting improvements and an ability to leverage the insights for improved planning will enhance ways of working across the entire business."

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UpClear

MYTH

Implementing a TPM solution will mean less work for my sales teams.

REALITY

Many Small and Medium Enterprises (SMEs) in the consumer goods (CG) sector continue to struggle with basic issues related to trade spend effectiveness, visibility, and reconciling deductions. Often, these business processes are still managed in disconnected spreadsheets, requiring repetitive data entry and, frequently, re-entry, with information getting stuck in operational silos. Sales people complain about the amount of "admin" they are required to do, while support and management functions complain about a lack of clarity.

A TPM solution is the obvious answer: enter data only once, let information flow through the organization, gain visibility over trade investment, etc. Technology can indeed be a major enabling element of transformation and investing in new technologies should be a top strategic priority for any CPG firm: as long as it is the right technology and the right solution.

SMEs need to be cautious and seek the right balance in terms of innovation at an affordable cost, with the business's ability to capitalize on this investment. "Don't walk before you can run" is sound advice in this respect: implement a solution that is too basic and you won't see the expected benefits over the long run. Likewise, a "heavy" system will become an expensive burden down the line.

After a successful TPM implementation, the sales teams' workload won't decrease, but reporting improvements and an ability to leverage the insights for improved planning will enhance ways of working across the entire business. Information can flow freely. Investment decisions can be based on facts rather than educated guesses and ROI thus comprehensively understood. Rather than "admin", Sales can concentrate on value-added work, such as spending more time with customers or out in trade. After all, they presumably weren't hired for their data entry capabilities? ❖

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Vistex

CARA DEGRAFF
Vice President, Product Management
Vistex

"Having a comprehensive system tied to your direct and indirect sales will help give data lineage to identify spend at the program and/or product level."

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Vistex

Bold Vision. Brilliant Execution.®

MYTH

Arriving at a true end customer profitability at a product level is impossible due to the myriad of distributor, operator, and customer rebates, deductions, and chargebacks.

REALITY

Price minus cost is a simple formula to calculate profit — or is it? In the consumer products space, it is never that easy. Rebates, special prices, fees, advertising, displays, co-op, and marketing development funds are just a few of the back-end programs in place that will eat away at the true net profit. "Peanut butter spreading" your spend across a product family or product line, instead of allocating it to the correct products, hides the true cost of business for the slow movers and can mask the profitability – or lack of it – for individual items.

Having visibility to all of that spend is the first challenge. Being able to document everything in one system is key. Having a systematic central repository for all trade programs and price adjustments is critical to being able to create, execute, and track all of the money going to the distributor, retailer, operator and end customer. With this visibility, running pre-program analysis on the profitability impact of a particular program becomes as easy as clicking a button.

The next challenge is tying the money that is spent to the correct program. Typically, up to 13 to 19 percent of the sales price is paid back to a customer in trade. Linking money spent to the right program is difficult to do without a trade spend system in place. Incoming claims may have a reference, but most deductions will not. If an attempt to guess the correct link is made, there is room for error and incomplete details. Automating this process with deduction matching logic, claim validations and calculations creates a best-in-class trade promotion program. As payments go out, posting the money in your financial system with reference to the accurate program is not only important for program profitability, but for customer profitability too.

Once the correct amounts are calculated, the final step is associating the trade spend back to a particular product. Simple dollar or percent rebates are easy to track since the payment is for a particular good; however, allocating growth or tiered volume rebates back to a product becomes more difficult as the proportions change throughout the year. Determining which brand advertising dollars were spent for a specific product — well, that's even harder. Having a comprehensive system tied to your direct and indirect sales will help give data lineage to identify spend at the program and/or product level. With all of the details available in the financial system of record allocated to a particular product, netting out the true gross to net profitability really IS attainable. With the correct tools in place, profit calculations become as simple as price minus costs once more. ❖