Trading Up: Building Smarter Promotional Strategies

Fact-based marketing and business intelligence tools are tightening up trade promotion measurement for consumer goods companies

A CGT White Paper

Consumer Goods Technology

Sponsored by: Business Objects™

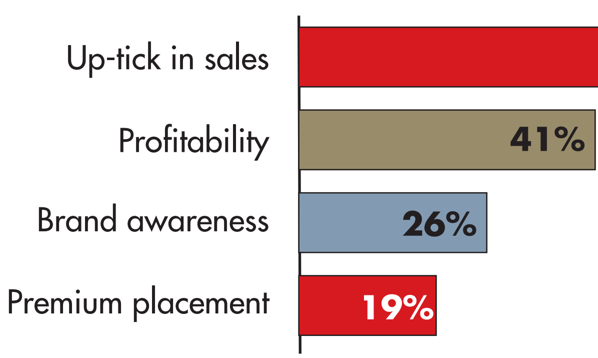
IN ITS JULY-AUGUST ISSUE HARVARD BUSINESS REVIEW TOOK ON THE TASK OF reviewing and comparing 20 years of advice and theory on creating "The High Performance Organization." With more than 10 research teams weighing in, one conclusion about how to measure corporate performance stood out: "Figuring out who stands tallest is far from straightforward; it depends upon which yardstick you use."

The conclusion is highly applicable to the current practice of measuring the effectiveness of trade dollars spent by consumer goods companies with their retail customers. Consumer goods companies are standing taller in this area, but exactly how tall depends on how trade spend is being measured. According to Hand Promotion Management, manufacturers worldwide spend upward of $700 billion annually on trade promotions. Over $500 billion of that is spent in North America alone. Additionally, trade promotion expenses (which range from 14-20 percent of revenues) rank second only to cost of goods sold on manufacturers' profit and loss statements. According to marketing and sales management consulting firm, Cannondale Associates, it accounts for as much as 54 percent of total marketing budgets.

Before the current period of progressive accountability, consumer goods companies maintained freewheeling, untracked spending for their major accounts in the name of co-op advertising, slotting allowances and failure fees to name a few. The current state is not perfect. Companies still pay for real estate at their key accounts without knowing exactly what that spending yields. But the concept of trade spend effectiveness is changing from a random sales stimulation tactic to a fact-based, efficient management strategy that depends on data and customer intelligence to measure its effectiveness.

Trade spend effectiveness is undergoing strenuous evaluation by CPG companies. Rather than paying a negotiated fee to a supermarket chain for a two-week end cap promotion for the latest flavor and packaging configuration, and not being able to measure the results of that expenditure, they want the advantages that greater control of trade funds can bring. They want the ability to track, manage and analyze promotions. From their own perspective, they want their money to be spent more efficiently. For the retailer, they want to add more science to the process of how products move, why they move and how fast they move from the sales floor. This is the era of fact-based management. It has evolved from Six Sigma to balanced

METRICS FOR MEASURING PROMOTION EFFECTIVENESS



Source: AMR Research/CGT Sales & Marketing report 2005 scorecards to marketing optimization. Now it's entering the hot kitchen of consumer goods companies and their retailers.

"Based on the combined impact of several trends in the industry, consumer products companies have fewer ways to influence consumer behavior, making the measurement of promotion effectiveness even more important today that it was a few years ago" states a recent AMR Research report "Promotion Effectiveness."

The benefits to CPG companies from tighter trade spending are easy to see. An August 4 AMR report estimated that more efficient trade spending could add an average of $50,000 in per store profit for promotion-centric retailers. Analyst Scott Langdoc stated in the report that retailers need to understand that other factors outside of price affect margin. The speed at which an effectively promoted set of goods moves adds to margin as well.

Consumer goods companies still need to present a tight business case for tighter trade spending. "The consumer goods companies want their spending to be more targeted from the amount of trade spending right down to their consumer spending," says University of Southern California marketing professor David Stewart. "They want to push this discipline beyond shelf space and co-op advertising. They want something that allows them to impact how their goods are treated at retail. Something that gets them away from the price game."

"BASED ON THE COMBINED IMPACT OF SEVERAL TRENDS IN THE INDUSTRY, CONSUMER PRODUCTS COMPANIES HAVE FEWER WAYS TO INFLUENCE CONSUMER BEHAVIOR, MAKING THE MEASUREMENT OF PROMOTION EFFECTIVENESS EVEN MORE IMPORTANT TODAY THAT IT WAS A FEW YEARS AGO."

– AMR Research

Can more effective trade spending accomplish this? Heinz Consumer Products claimed it enhanced planning, forecasting and promotion tracking capabilities last year by retooling its trade promotions platform. Tighter tracking of results from product trials helped up-sell consumers to higher-margin items and improve retail profitability for Heinz customers. Miller Brewing used trade spend tracking processes to capture pricing and promotion information from distributors and retailers in 2004, resulting in a reduction in average promotional reward payments and discounts from 30 days to two weeks.

Some technology advances and developing strategies are changing the landscape. According to Colleen Norris, Manager – Application Services (Sales Systems), Pfizer Global Business Technology, the company has a custom built TPM system that manages sales forecasting and promotion planning. Lift predictions are calculated using account/sku information. Cost Per Incremental Dollars is calculated and used as quick reference instead of ROI.

"Traditional ROI measurements were too much to handle for some accounts," says Norris. "CPI was more doable."

Promotion effectiveness is measured by Pfizer's sales, finance, and consumer promotions groups. Sales teams typically use POS data as their information source and large account teams have more intense analytical support. The Consumer Promotions Group has partnered with AC Nielsen on an adhoc basis to understand effectiveness by vehicle (e.g. FSI's). Norris says the company generates a tremendous amount of POS data, which is being "folded" back into the trade management tool.

Norris is open about the need to improve the system at Pfizer. She says the company needs to find a way to be more consistent in how its information is measured and managed across the company.

THE DATA DRIVER

Pfizer's work is an example of change in the consumer goods retail approach. Business intelligence is driving this change. Tracking the results of trade promotions gives both sides of the consumer goods equation an opportunity to learn greater detail about the effects of pricing, advertising and placement. In order for this to happen however, a cultural change must take place between consumer goods vendors and retailers. It will be necessary for retailers to collaborate more and give up more data, and in the mass market business, data is leverage.

"Tighter trade promotion control has a lot of advantages for the consumer goods companies because they get data," says Stephen Brobst, specialist in retail and consumer packaged goods for the Data Warehousing Institute. "They have a hard time getting data. They have to outsource their data to ACNielsen and other third parties when they ought to be getting more data from their retailers. The problem is, retailers are generating a huge amount of data. They need to share more of it."

Brobst says consumer goods companies need to find incentives for more complete data sharing, especially to track promotional results. But retailers and CPG companies may not be as prepared as Brobst and others think. A report issued in August by TDWI didn't break retail or CPG out specifically, but it did show that only 9 percent of all US companies had performed an ROI assessement of their business intelligence efforts. The report also found that the majority of companies (55 percent) have multiple BI vendors. So integration of data is still an issue.

Many companies have trade promotion solutions that consolidate data as part of their feature set. Business Objects will have its own trade spend effectiveness solution on the market this fall. Russ Hill, Director of Retail and CPG Industry WW, believes software solutions can raise and answer questions that will serve to enhance profitability for both CPG companies and retailers. "There is a need in this business to build and

TRADE SPENDING: What to Measure

At its most basic level, trade spend assessment is the ability to measure product consumer lift from a specific promotion or series of promotions, the costs incurred in getting that lift and how the promotion affects the financial performance of the consumer goods company and their retail partners. These are the basic elements to measure. More specifically here are some finer details to focus on:

- ✔ **Invoice deductions incurred with the corresponding promotion**
- ✔ **Tracking of events and activities all associated special financial details such as merchandising allowances, coop, slotting, scan-downs, MDFs (market development funds) and volume incentives and even profiling diverting activities.**
- ✔ **Promoted volume forecast and the sales force executed that promoted volume**
- ✔ **Corporate, Region, District and Store level volume forecasts and then volume tracking**
- ✔ **Post-event fund dispertion (revenue goals, volume goals, etc.)**
- ✔ **Profit target and actual performance.**
- ✔ **Cross-sell and upsell capabilities when assessing what is selling and with what products for more effective campaigns.**

use scorecards on sales organizations," says Hill. "We need to track promotions so we can optimize the ones in motion and plan the ones that haven't been executed yet. How is money being allocated? What products are being impacted by trade spend, either positively or not at all? What products are consumers ignoring? What and how should promotional events be evaluated? How do I spend trade money in a way that will drive profitability? That's what we should be after."

CUSTOMER INSIGHT

Data gained by trade spend analysis and generated by promotions that capture consumer data can help retailers identify most valuable customers and most growable customers. The definition of "valuable" and "growable" changes depending on the product category. According to Susan Allen, CEO of lead generation specialist firm Data Banque, some companies may simply identify early adopters as a way to identify MGCs. "If you've shown you're willing to try new products or even advise on a new product launch, you're a growable customer for most companies," she says. "You're not afraid to try something new."

For example, a trade promotion on a new line of high-end hair care products could display the product at an end cap, but also ask customers to visit a web site to enter information about their product purchase patterns and preferences. Respondents will have shown a willingness to a) try new products and b) communicate with the manufacturer. Both are behaviors of potentially valuable customers. How much should the CPG company spend on the end cap? How much should they spend promoting the web site that will yield valuable customer data, that can then affect new product launches as well as pricing and packaging of current products? Only efficient trade spend analysis will answer these questions.

Dale Hagemeyer, Research Director, CRM Practice for Gartner, believes trade promotions need to do a better job of dovetailing with other customer initiatives. "You're going to have to pay the trade so you might as well get as much as you can out of that expenditure," he said during a recent *Consumer Goods Technology* web seminar. "That's how you make it a competitive advantage. Right now there's absolutely no linkage between what companies spend on the trade and what the return is."

Hagemeyer says a perfect storm is brewing for consumer goods manufacturers. Ineffective trade promotions are part of it. Customer consolidation, direct-to-consumer marketplaces

MOVING BEYOND COMPLIANCE

Compliance issues have made the current level of trade spend management essential. SOX and its regulation of corporate accounting has made a tighter level of ROI from trade spending part of the process. Benchmarking all of a company's costs and contracts with suppliers and retailers are a big part of any SOX initiative. "SOX and its offspring have strong implications for how major marketers manage their marketing and advertising investments," states Morgan Anderson consulting principal Arthur Anderson in the June issue of the Association of National Advertisers Journal. "Tools, models and techniques are available that can provide metric-based assessments of marketing and advertising in a context of good governance."

At the same time that compliance is being operationalized, consumer goods executives are moving past it as a priority. A July 27 Deloitte study of 30 global companies found that "pursuing profit" has re-emerged as the number one priority in 2005, with compliance and risk management falling behind. The Deloitte conclusion plays directly into the advantages of tighter trade spending management. Deloitte's three key growth strategies were customer segmentation, solution selling and managing strategic accounts.

"Account teams must develop in-depth relationships with customers and should completely understand their business strategies and needs," the report stated. "It takes considerable time, effort, and resources to manage a key account effectively; therefore, the long term value and cost-to-serve should be taken into consideration."

(e-commerce), growing retailer sophistication, increased demand for consumer value and the multi-channel environment complete the picture. He says the trade promotion effort from a CPG company should be part of a larger initiative to serve the retailer and the customer at the same time.

"We always want to start a big initiative," he says. "Companies don't see trade promotion as part of a greater CRM initiative. We need to start thinking in terms of a single strategy. TPM is a continuous process that links to other key elements of packaged goods operations."

Trade promotions, according to Hagemeyer, can generate data and processes that feed customer planning, category analysis and retail execution. Category management is the weak link, he says. CPG companies need to evolve their data processes from transactional to analytical to real-time.

Change Management Key to Trading Up

LIKE ANY BUSINESS PROCESS THAT SMACKS OF "new" change is the operative word in trade spend effectiveness adoption. Consumer goods companies may need to institute cultural and process changes to make it work. Sales people steeped in the culture of "spiffs" and rewarding product buy-in with exorbitant media expenditures will need to change their ways of selling, thinking and succeeding.

Example: Take the salesperson responsible for a major shaving product brand at Supermarket Chain X. Say the salesperson has been on the job for ten years, weathering management changes, rebranding, competitive price pressures and fickle consumers on his way to hitting his quota every quarter. Part of his success, he believes, are his personal relationships at Chain X. It's the golf tournament he sponsors every September. It's the charity contributions he makes to Chain X's hospital wing in St. Louis. It's the lavish dinners he hosts at the Italian restaurant near Chain X's HQ. It's the slotting fees. It's the consistent support he gives to Chain X's weekly FSI.

Then one day, the salesperson's manager tells him that quarterly budget isn't being cut, but it must be accounted for. Money spent to promote the brand at Chain X needs to be supported by incremental sales lift. That lift needs to be based on POS data or a new trade spend analysis process. The decade of success, according to the salesperson, is being underappreciated and dismantled.

There are several theories about how to bring about such a radical change in the culture of a salesforce or even an entire company. An evolution toward more efficient trade spending could potentially stress internal relationships. An attitude of "here's the new deal, now deal with it" will not be successful.

"From our point of view, the execution to plan gap is caused by poor adoption and poor change management processes," say Don Peppers and Martha Rogers, PhD in their book Return On Customer. "Sales reps, financial staff, marketing managers, contact-center personnel, service technicians—everyone must understand and embrace the task, and sometimes they will need access to the appropriate technology. Not only your employees but vendors, partners and customers. If a company wants to maximize customer value that mission is not just for marketing or sales. Eventually, it will touch everybody who touches your company. It's therefore vital that your processes accommodate all the various roles and responsibilities of these different users and participants."

Another approach, called Positive Organizational Development, has been gaining momentum at company's like Saturn, British Airways and Verizon. POD says you identify an employee, or an organization's strengths and you build on them.

"Paint the picture from the salesperson's perspective," says Jennifer Rosenzweig, organizational development director for Carlson

Measuring progress in trade spend management truly depends on the yardstick you choose. Hagemeyer says the yardstick has moved from transactional "point in time" data to analytics to optimization to a desired state of real-time visibility into the trade funds spent and what they produce. UCS's Stewart, who is in the business of preparing future trade fund managers for battle, says he advises his students to "understand that you're renting real estate. Understand that you have to protect that real estate from your competitors. And understand that retailers are interested in the velocity of product leaving their stores and you have to help them do that."

Business Object's Hill would like to add one thing to that lecture: "Track all that activity, and you will initiate good business practices." ■

Marketing Group. "You know what made them successful in the past, so there has to be an inherent reason for them to apply that strength in the new world your're presenting. In this case, you'd have to get the salesperson to understand that his personal relationships will still be a key factor. In fact, they will be more important because the new trade spend analysis will enable those relationships to be enhanced by more data and more proftability."

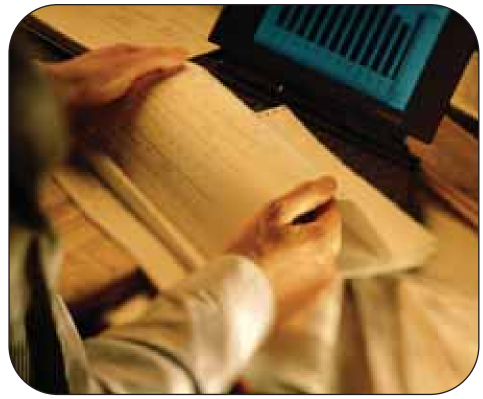
Managing change in any part of an organization is a huge challenge. People are asked to alter behaviors and are impacted by new roles, responsibilities and reporting structures. Sometimes the future state of the organization is unclear, and the individual impact is even less clear. These factors produce anxiety and resistance to any major change program, and adoption is still a major problem at many companies. Managing change in revenue functions, especially in the area of trade promotion spend, presents additional challenges.

According to Rosenzweig, the sales force responsible for spending trade funds interacts with customers and delivers revenue. As a result, these individuals implicitly belong to a special "class" where different rules apply. They typically are highly compensated and they often receive special treatment. Therefore, implementing change among revenue generators becomes increasingly delicate. Change programs are sometimes seen as an attempt by management to impose control or implement some type of "big brother" monitoring mechanism. At the end of the day, if your best sales representative fails to use your new SFA system are you willing to fire her?

The initiative will challenge established habits and conventional wisdom as TPM moves the firm toward a data-driven, decision-making environment. It may turn out that previous trade spending strategies fail to deliver positive ROI. In addition, this change in spending can greatly impact the relationship with the retailer, who might rely on these trade dollars to help fund an already slim profit margin.

The breadth of this transformation will quickly push account managers outside of their comfort zone. They eventually will be asked to learn new behaviors and to develop new capabilities to analyze real-time data and act on it quickly. This may lead them to alter their plans while working with new cross-functional promotion management teams. Yet they will be expected to deliver results as if nothing has changed. Rosenzweig recommends the following tips to managing cultural change in the trade area:

- **Change management should be a primary focus with ample resources and effort allocated. When costs rise, "fluffy" items like change management tend to get cut. Efforts to save some small percentage may, in fact, jeopardize the entire investment.**
- **Invest in "workforce transition." Identify all necessary changes to organizational structures, roles, responsibilities, skills, performance metrics, etc. Give employees a clear picture of their individual future state environment and a reasonable path for getting there.**
- **Focus on "stakeholder enrollment" as a central theme. The case must be driven to the individual value-proposition level with special focus on individual needs and drivers.**
- **Don't underestimate the need for "change leadership support." Proactively identify gaps in skills, knowledge and attitudes for key change leaders and plan for a comprehensive program of building capabilities.**



ABOUT BUSINESS OBJECTS

Business Objects is the world's leading business intelligence (BI) software company. With more than 30,000 customers worldwide, including over 80 percent of the Fortune 500, Business Objects helps organizations gain better insight into their business, improve decision-making and optimize enterprise performance. The company's business intelligence platform, BusinessObjects™ XI, offers the BI industry's most advanced and complete platform for reporting, query and analysis, performance management and data integration. BusinessObjects XI includes Crystal Reports®, the industry standard for enterprise reporting. Business Objects has built the industry's strongest and most diverse partner community, and also offers consulting and education services to help customers effectively deploy their business intelligence projects.

Business Objects has dual headquarters in San Jose, Calif., and Paris, France. The company's stock is traded on both the Nasdaq (BOBJ) and Euronext Paris (ISIN: FR0004026250 - BOB) stock exchanges. More information about Business Objects can be found at www.businessobjects.com.

Business Objects™