

Consumer Products: Trade Promotion Management

by Don Lanham, Director - Consumer Products

Consumer products (CP) manufacturers spend millions of dollars on marketing, with a large portion of that going to trade funds. It is generally accepted that on average, 15-25% of revenues go to trade funds, and unfortunately, most companies do not have a good handle on their return for that investment. Oftentimes, companies run the same promotions year after year without understanding success or failure for individual programs. This is one area where technology could absolutely help in tracking those dollars and analyzing profitability and effectiveness of spend, but the majority of companies, particularly small to mid-size companies (SMB), run their trade programs with spreadsheets.

Clarkston Consulting recently partnered with *Consumer Goods Technology Magazine* in a trade promotion management survey to understand what companies are doing in terms of improving trade fund effectiveness and to provide insight on the necessary steps to improving trade promotion management.

Nearly half of the survey's respondents stated that they "never" or only "sometimes" incorporate their customers in advance trade promotion planning. **Customer business planning** is the first step in improving trade promotion management and eventually moving to trade promotion optimization. Customer business planning is the step where CP manufacturers and their trade customers collaboratively, in a top-down and bottom-up

fashion, design trade promotion programs that promote total category growth, customer satisfaction and shopper loyalty and frequency. The mutual sharing of information is critical to the success of this step, and, subsequently, to the success of the entire trade promotion management process. Retailers should be prepared to share chain growth plans, category development objectives, special consumer events, promotional calendars, and historical data. Likewise, CP manufacturers should be prepared to share company /channel growth plans, brand development objectives, new item introductions, trade spending plans, promotional plans, and account performance trends /opportunities.

This collaboration, most likely, will not be complete in one planning session, nor will the customer and CP manufacturer be totally aligned in their plans and direction. Therefore, plan for several meetings, incorporate multi-disciplined teams, and conduct "gapping sessions" to reconcile differences. When done properly, these efforts will result in "win-win" annual customer business plans, successful incorporation of CP manufacturer internal objectives, alignment with customer objectives, effective resource allocation (people & trade spending), and the ability to effectively track progress against agreed upon brand performance assessment criteria.

Trade spending continues to be the number two budget item for CP manufacturers (behind COGS), representing 15-25% of CP companies' gross sales. In addition, trade spending continues to outpace sales growth for CP brands, and based on the survey response, this trend will continue with nearly one fourth of the respondents stating that their companies will increase trade spending 1-3% over the coming three years. This increase will be largely incremental trade promotion spending as 89% of survey respondents stated that the increase in trade spending would come from efficiencies driven on the operational sides of the business (see Figure 1). With its current size, bottom-line impact, and forecasted growth, this makes the trade promotion **budget allocation** step of the trade promotion management process more critical than ever before. In this step, trade promotion budgets are allocated across the CP manufacturers' customer hierarchy using multiple metrics that include historical performance, revenue growth, past program compliance, partnering levels, and co-authored business plans. Tracking processes must be established to monitor all transactions and to track the movement of trade promotion funds throughout the CP manufacturers' systems. Compliance, measures, and controls are critical, so workflows and proper approvals are assigned to managers to keep track of trade fund spending throughout the system. When done properly, this planning step results in timely and accurate allocations of trade promotion funds by customer, category, brand, and geography.

To be most effective, CP manufacturers must be able to develop promotional events and predict the events' results based on models built with historical data from multiple sources—shipments, scanner data, syndicated data, and retailer loyalty data. Modeling

provides pre-event return-on-investment measurements (ROI) as “baseline” volumes are first established by brand (ideally SKU) and lift formulas are applied to the baselines to generate predicted results. Predicted and actual results are then used for post-event comparisons and future event selection is based on these ROI metrics, starting a cycle of well-planned and successful trade promotion events. Not surprisingly, however, only 7% of survey respondents stated that they were currently able to measure their trade promotion program success or failure “very well,” and that they always have a “pre-defined” hypothesis (or prediction) for each event to help them predict these results setting them up for key learning in the post-promotion analysis phase of managing their trade promotion effectiveness. Fifty-five percent categorize their ability to measure program success or failure as “not very well” and 3% were unable to measure their effectiveness at all (see Figure 2). **Promotion development and modeling** drives this measurement capability, ensures that different promotion scenarios are developed using multiple data points, allows for predictions of results, and provides for meaningful post-program analysis as an integral part of trade promotion management.

In addition, the survey responses also revealed that a disconnect exists between the effectiveness of trade promotion spending and its integration with the bigger brand marketing picture as only 7% of survey respondents stated that their companies always develop trade promotions that are well-linked to marketing and brand plans and that trade promotions are measured to ensure that trade spending is a good way to reach consumers and to drive brand growth. Promotion development and modeling provides for collaborative promotion planning with all key

For those that are going to increase trade spend...WHERE will the increase in trade funds come from?(Multiple responses permitted)

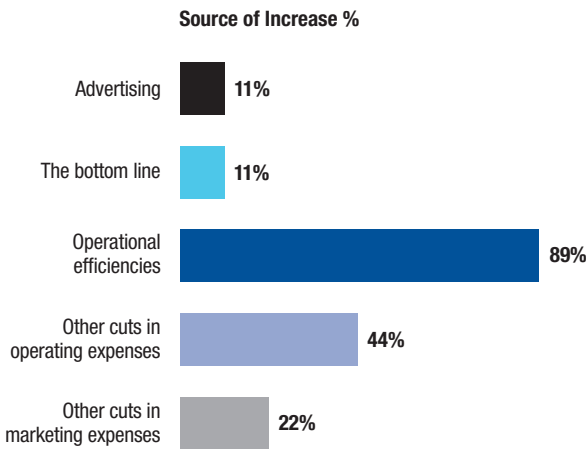


Figure 1

How well are you able to measure program success or failure?

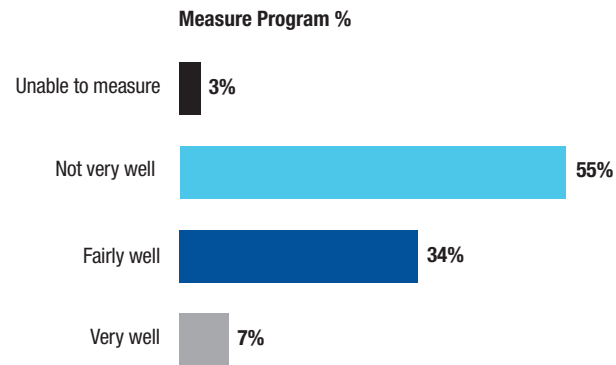


Figure 2

stakeholders within the CP manufacturers’ organization (sales, account management, brand, and marketing), allows for events that are tied to a trade customer’s specific consumer activity, and makes sure that trade promotion events are integrated with overall marketing and brand plans.

Simply put, **retail execution and monitoring** is the communication of store level event details to the proper parties, the execution of planned trade promotion events in accordance with agreed upon program details, and the collection of retail performance activities—merchandising, feature ads, price reductions, and the like. It only makes sense that this be a priority for all involved with the considerable use of resources and extensive planning and development that has taken place to this point, with the amount of money that is being spent on the particular trade program(s), and the potential impact the events will have on the CP manufacturer, the customer, the consumer and the brand. Best practices in solid retail execution and monitoring see the use of two-way electronic communication and immediate electronic reporting of trade promotion activities; retail coverage plans and models based on program goals, objectives, and customer priorities; and the regular reporting of competitive activity. As stated, accurate communication by the CP manufacturers to their sales force of agreed upon program details is critical to good program execution. However, when CP manufacturers were asked if it is always clear which programs and terms were committed to trading partners, only 28% stated programs and terms were “very clear,” while the remaining 72% stated that terms were “not very clear” or only “fairly clear” (see Figure 3). Without a doubt, account management staffs must ensure that the customer planning and program development

steps are closely followed to drive performance, and, once agreed, trade promotion program details must be confirmed with all appropriate parties at the customer prior to field sales communication.

From the CP manufacturers’ point of view, the survey revealed that customers are mostly satisfied with the timeliness of payment from CP manufacturers against their trade program claims. Driven by CP manufacturers’ finance and accounting staffs, the **settlements** step of trade promotions management fully leverages people, process and technology to close periods in a timely and accurate manner (financial process compliance). People (primarily account management staff) should be empowered to handle all payment types to customers in a timely, accurate, and accountable manner through well-established approvals and documented workflows to move the CP manufacturers’ organization to zero deductions. Processes are established to match proof of performance against trade spend commitments and a deductions management process provides comprehensive matching capabilities to facilitate expedient settlement resolution. And technology will automate many steps with the use of web-based performance compliance tools, will provide evidence of proof of performance with every payment via electronic attachments or tracking references, and will provide different end users with flexible views for each type of settlement and each step of the process.

Management reporting and post-event analysis is a formalized step that looks to understand the effectiveness of promotions (either over-performing or under-performing) by comparing promotional predicted metrics, actual performance and preset

Is it always clear which programs and terms you've committed to each of your trading partners?

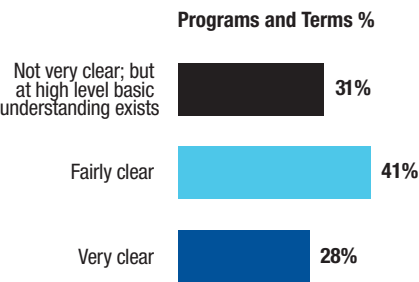


Figure 3

How automated are your trade spend processes (contracting, approvals, claim settlement)?

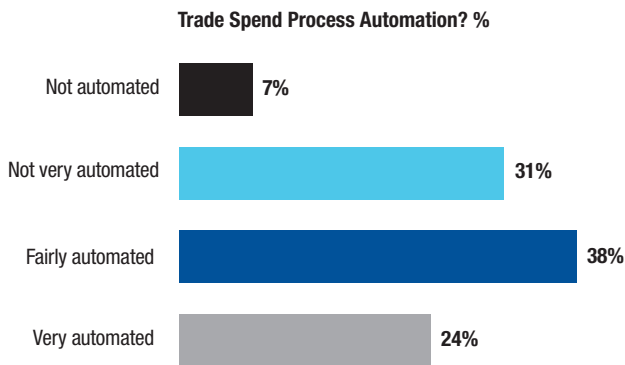


Figure 4

thresholds. The value of this analysis allows a CP manufacturer to take action on current or future promotions, either to correct poor performance or boost good performance. The post-event analysis will also provide the assessment of program profitability and ROI based on actual customer performance metrics. Similar to the settlements step above, people are needed to provide analytical expertise and methodology for ROI based review of event execution data (shipments, performance history, syndicated data, retailer scanner data). Processes provide easily understood, standard formatted reports using key performance indicators (KPIs) to diagnose past trade program performance and to identify corrective measures for future events at retail store level. Technology links multiple data feeds including internal shipments, promotion history and point of sale (POS) data to speed reporting and also brings executional reporting capability to the forefront providing the ability to track promotion participation and execution, trade funds management, predicted results versus actual results, net sales calculations, and trends analyses. With technology being key to settlements, management reporting and post-event analysis, it is encouraging that automated trade spending processes are currently being used by 62% of survey respondents (24% consider themselves "very automated" and 38% are "fairly automated" (see Figure 4).

Finally, the ability to create and utilize various models to determine optimal trade programs, ideal category assortment, promotional and pricing optimization, and price elasticity should be the goal of the CP manufacturers' trade promotion management organization. **Optimization and insight** of trade promotion events represents a huge opportunity for CP manufacturers for two reasons. One, 76% of survey respondents have not begun to optimize trade spending, executing only what is needed or basing current spending on past spending (with little to no analysis). Second, CP manufacturers that implement advanced trade promotion management and analytical tools can improve overall ROI by 4%-18% and can potentially impact net earnings by 10%.

The opportunity to improve TPM practices stands before the CP industry right now and incorporating these steps will be helpful in realizing the full potential that currently exists. The payoff resulting from the implementation of these practices is significant for CP manufacturers and can come in a variety of ways to benefit brands, categories, customers, and consumers.

For more information, visit: **www.clarkstonconsulting.com**



Headquarters
Research Triangle Park
1007 Slater Road, Suite 400
Durham, NC 27703
Phone: 800-652-4274
Fax: 919-484-4450

www.clarkstonconsulting.com

Copyright © 2007 Clarkston Consulting. All rights reserved. 0101_0907

About Clarkston Consulting

Clarkston Consulting is a different kind of management and technology consulting firm. We deliver a unique experience for market leaders within the Consumer Products and Life Sciences industries. Considering professionalism, expertise, and value as prerequisites, we take service a step further through our unyielding commitment to the success of people as individuals, both our clients and our employees. By combining integrity, adaptability, and a whatever-it-takes attitude, we have achieved an extremely high rate of referral and repeat business and a client satisfaction rate of 97% over the past five years as measured by The Conference Board.