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# 3 COMMON CHALLENGES WITH TRADE PROMOTION OPTIMIZATION AND HOW TO MITIGATE THEM

With this new mainstream surge in generative AI, interest in trade promotion optimization is only increasing, and as a result, more of our clients have questions about what this means for them. Our trade promotion optimization (TPO) experts have been talking about and working with our clients for years on how TPO can enhance and optimize the return on investment (ROI) they'll see with the trade promotion plans they execute. In this blog post, our experts offer guidance on common challenges with trade promotion optimization as well as some mitigation strategies to realize that ROI. But first, let's level set on what TPO is.

## What is Trade Promotion Optimization (TPO)?

TPO is a process or tool that leverages historical data from past promotions to enhance future trade promotion plans in such a way as to improve or optimize the return on investment. that companies will seeThis will typically leverage machine learning or artificial intelligence to sift through your past trade promotion plans along with the measured and documented results from those cycles (ex. overall profit, customer profitability, profit by category, etc.) to determine what promotions worked well for you in the past, identify past promotions to enhance, or even new opportunities to start folding into your existing promotion strategy to drive the specific results that you and your organization want to see

However, as with all technologies and processes, TPO does not come without its own set of challenges, the combinations of which will likely be unique to your organization. However, through our past engagements with clients in the consumer products space, we've seen a few challenges that pop up more often than others.

## 1. Data Quality and Management

Like any other analytics tool or concept, data management is of the utmost importance. The common saying about AI – "the quality of the data you put in will be the quality of the data or results you get out" – is 100% applicable to TPO. Even if your TPO processes don't use AI / ML to sift through the data and rely on human assessment to glean insights, you will still need quality historical data to analyze. Otherwise, iIf your historical data is not accurate or complete, the insights that you pull through from the analysis will, by default, also be inaccurate or incomplete.

You may be asking at this point, "Well, what will make data have good quality for TPO?" At a high level, you'll want to make sure that the aspects of your data that are high quality are directly related to the

type of insights you want to learn from or the areas of your trade promotion strategy that you want to optimize. For example, if your organization wants to optimize customer profitability, you'll want to ensure that the data you're capturing for the promotion plans at each customer account are properly tracked and organized. Some questions to consider below:

- Are you capturing promotion data in a timely manner and at the right level of time detail? (i.e., if you only get monthly data and you only promoted 1 week in the month, you will have difficulty with accurate/meaningful analysis.)
- Are you capturing promotion results / ROI accurately?
- Are you capturing data at the right level of granularity? For example, you want to do UPC-level analysis but only track discounts at the PPG level.
- Do you need to change the category or product hierarchy for data capture to obtain more actionable insights?

## 2. Organizational Alignment of KPIs

One of the challenges that we've seen our clients struggle with within their organizations is the full alignment of the definition of key performance indicators (KPIs). Without organizational alignment on what KPIs should be optimized and then what the definition of those KPIs includes, a TPO process or system will lose its effectiveness.

Let's take trade expenses as an example. Sales teams will have a very specific definition or version of what is included in trade expenses – mainly the items that they include in their promotion plans. Finance teams, however, will include product damages or swell allowances in their definition of trade expenses. If a TPO process or system doesn't have a definition of trade expenses that both teams are aligned on, the insights it provides on trade expenses will be ineffective for at least one of those teams and possibly even both.

So, how can your organization make sure that your TPO system or process can have effective and actionable insights for all the teams that leverage it? With full organizational alignment on all definitions of KPIs, your organization is much more likely to agree on what ROIs you want to see and what exactly those ROIs need to entail, as the definition they're built on will be precise and include the necessary components for all teams. If you don't have a TPO process or system in place, then you can and should ensure organizational alignment on all necessary KPI definitions as a prerequisite for a TPO implementation. If you already have a TPO process or system in place, collect all the documentation of KPI definitions from the different business units and then leverage these to identify and subsequently close gaps in those definitions.

## 3. Natural Human Resistance to Change

Let's say that Priyanka is a salesperson at a consumer products company and has been outselling her quota almost every year for the last 20 years. She already has several extremely effective processes and deep relationships with retailer reps in place. Why would she want to change anything that she's been doing for the last 20 years when she's proven time and time again that she can drive results?

Change is hard for everyone, especially when things are going well – people don't want to disrupt the status quo and sometimes trust technology and data less easily than other people. But just because things are going well, does that mean things can't be improved? Of course not! And that's what TPO can do for your organization – optimize your trade promotion plans to help drive improvements wherever they exist – and they will always exist. And not just that, if the TPO system can learn from your best people, it can then share those insights and strategies with the rest of the team and improve their plans as well.

How can you, as a leader in your organization, make this type of change easier for your people? The answer may seem quite simple but functionally be more complex – be intentional. Treat this change with the care and attention that it deserves so that your people won't be resistant to this new system or process but instead, be excited for how it can help them do their jobs faster, more efficiently, and more effectively. Develop a comprehensive and holistic change management strategy with regular communication plans. Determine who the main stakeholders are that will be most impacted by this change and focus more energy on managing the change there. Develop an in-depth training curriculum that addresses common questions and maybe even some uncommon ones. If you want your TPO implementation to be successful, then dedicating time and resources to the change management of the implementation will be crucial.

## Moving Forward

If you're experiencing any of these challenges with your TPO system or process, reach out to our team at Clarkston to start a conversation to see how we can best help you achieve your goals. You can check out our comprehensive list of TPO and trade services here.