



# TRADE PROMOTION A FRAMEWORK *for* GROWING PROFITABILITY

THROUGH BETTER TRADE PROMOTION EFFICIENCY AND EFFECTIVENESS, CPG companies CAN transform their sales organizations to drive profitable growth — often adding 10-15 percent to bottom-line operating results on an ongoing basis. The rewards are significant — a 15-percent improvement in ROI, and great impact on your overall profit. How? Identify the real factors standing in the way of your current trade program's success, then build the right framework — one uniquely designed for *your* success.

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FOR MOST CPG COMPANIES, TRADE SPEND CAN ACCOUNT FOR AS MUCH AS 25 PERCENT OF GROSS SALES and is, as we all know, the second-largest item on the P&L behind cost of goods sold.

Thus, increasing trade promotion effectiveness represents one of the most significant opportunities for CPG manufacturers today.

Today, pressing this lever is becoming ever more important: Leading companies embrace trade spending as a strategic investment — but are increasingly funding consumer marketing, product customization and value-added services as well.

With these additional investments now required, greater trade promotion effectiveness and return are more critical than ever, so that these new efforts, too, can be funded and leveraged.

How can this elusive trade promotion effectiveness be achieved? The key is to integrate *analytics, systems, processes* and *organizational capabilities*.

Although today's marketing mix continues to shift toward in-store marketing and the trade, many companies continue to under-leverage their investments in trade spending, despite its financial and strategic importance.

Yet, trade promotion spending *can* be optimized to transform it from a drain on ROI into a significant bottom-line booster. Capitalizing on the opportunity requires a transformation effort that integrates the appropriate analytics, systems, processes, and organizational capabilities in a way that focuses the entire sales organization on the bottom line.

## Well Worth the Effort

There's no question the potential return is worth the effort. CPG manufacturers can transform their sales organizations to drive profitable



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growth—often adding 10-15 percent to the bottom-line operating results on an ongoing basis — through improved trade promotion efficiency.

The rewards are significant: A 15-percent improvement in ROI has a significant impact on the overall profit of the company (*see Exhibit 1*)

Despite these enticing numbers, however, and the movement toward optimizing trade investments, the industry's overall return on trade promotions is still disappointing. Many manufacturers are so focused on generating additional volume that the overall efficiency of their

trade spend is low (*see Exhibit 2*).

In fact, many companies cannot accurately and consistently distinguish between poorly performing promotions and more profitable ones. A Booz & Company survey found that only 22 percent of companies surveyed can measure their trade spending at the individual event level.

### **Finding a Better Way**

Despite the obstacles above, it is possible to change the way an organization designs and implements its trade programs. Although

the basic technology and models have been available for more than 15 years, we strongly believe that success requires more than just models or tools.

True transformation requires a fundamental, staged capability development for the company, driven by senior management and implemented at all levels of the organization.

Success requires a willingness to change the way an organization deploys its trade spend, gathers trade promotion data, and uses systems to analyze it. Analytics, sys-

**Effectively investing several hundred million to several billion dollars in trade promotion is a critical capability** for CPG manufacturers. This capability must be deployed using the right analytics, the right processes, the right systems, and the right organizational alignment.



Exhibit 1

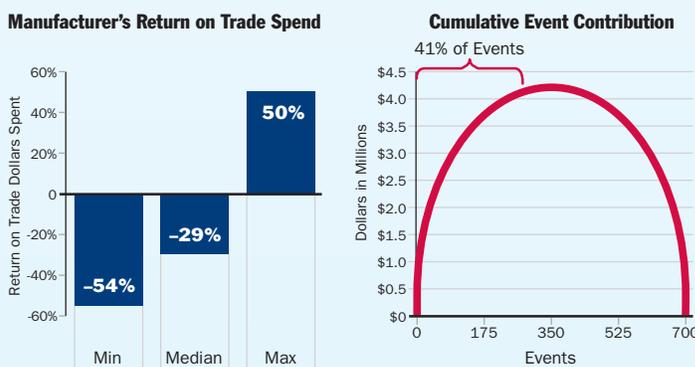
**THE IMPORTANCE OF TRADE PROMOTION EFFECTIVENESS**



Note: Using this simple formula, a company can estimate the impact that changes in trade promotion effectiveness have on its bottom line. For most CPG companies, it is hard to find a more significant, clear-cut financial opportunity.  
Source: Booz & Company

Exhibit 2

**CPG'S LOW TRADE PROMOTION RETURNS**



Note: (a) Most manufacturers lose nearly one-third of the money they put into trade promotions. (b) Trade promotion effectiveness varies widely by event. Often sales teams "buy" volume at any cost—driving down profitability.  
Source: Booz & Company

tems, process, and organization need to be integrated to achieve a major transformation.

Booz & Company has conducted in-depth trade promotion diagnostics for more than 20 CPG manufacturers. For each manufacturer, we created a database with several hundred promotional events.

We found that the range in ROI between the worst and the best events for major manufacturers is negative 100 percent to more than 700 percent.

Moreover, even at an account/brand level, the difference in efficiency between the best and worst events typically ranges from 100 percent to 500 percent.

**Why Such Uneven Performance?**

Why does event performance vary so widely? The account, promoted products, merchandising vehicles, pricing, timing, and financial terms all can, and often do, have a significant impact on a promotion's ROI.

Consider the following: Everyone knows that displays drive more volume than features. But displays also cost much more than features, so displays are not necessarily more efficient than features.

The efficiency of a potential promo-

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## ISSUES THAT IMPEDE TRADE PROMOTION EFFECTIVENESS

**T**he first step in truly transforming a company's trade promotion program is to identify and examine the factors that are inhibiting your current program's success.

They may include:

### ■ Over-reliance on top-down rules:

Certainly, not all guidelines should be eliminated.

Typically, however, guidelines only prevent the most unproductive approaches and will not drive consistent efficiency improvements.

If properly developed, guidelines can drive a two- to four-percent increase in trade promotion efficiency.

### ■ Systems that lack robust analytical planning capabilities:

Corporate systems—especially the major systems for customer relationship management (CRM) and enterprise resource planning (ERP)—do not have the analytical capabilities necessary for trade planning and optimization.

Planning effectively and optimizing trade spend is a complex task. Most existing systems can serve as good control mechanisms,

but they need to be customized or configured to handle effective and efficient analysis and planning.

### ■ Inability to manage trade budgets:

Many companies have little insight into how their trade promotion budget is being spent, both on a company-wide and a brand-centric basis.

This lack of financial understanding leads to a host of operational problems, from being unable to understand how much of the budget is left to invest to being unable to accurately account for open liabilities and actual spending.

Given today's strict accounting and control laws, many companies spend hours manually collecting information from various sources to remain in compliance.

These operational inefficiencies make it virtually impossible for sales teams to focus on building and selling more efficient events.

### ■ Organizational focus on outdated metrics:

Despite the increasing recognition that profitability should come before volume,

## ISSUES THAT IMPEDE TRADE PROMOTION EFFECTIVENESS

*Continued ...*

many manufacturers continue to focus on volume at all costs, especially when reacting to competitive threats.

But there is a world of difference between volume and *profitable* volume. By evaluating ROI, manufacturers can achieve growth in the most efficient way, but the profit mindset must be embedded within all parts of the organization.

To achieve this goal, successful organizations are increasingly using profit as a met-

ric in their incentive and compensation structures.

### ■ Lack of a comprehensive program:

In some cases, companies have developed very strong capabilities in distinct areas, such as analytics, but they are not part of a comprehensive program and thus fall victim to organizational inertia.

To be effective, analytics and tools need to be effectively linked to changes in the trade promotion processes, including how events are planned, executed, and monitored. ■

tion can be accurately assessed only by weighing its expected cost against expected consumer response.

Even though event performance varies widely, it is highly predictable. Reliable and accurate statistical models for predicting the volumes of trade promotions for fast-moving consumer goods have been available for years.

A good statistical model can usually predict the volume of an event with an average accuracy of plus or minus five to 10 percent.

At this level of accuracy, the ROI for a single event can be predicted with an average accuracy of plus or minus

three percent.

Compared to the observed variability in event efficiency at the account-brand level, these statistical models, which can be built internally or outsourced from a number of providers, are highly accurate.

These two insights — that event performance varies widely yet is highly predictable — lead us to an important conclusion:

*Trade promotion investments can be optimized reliably by predicting performance for each individual event and selectively running more efficient events, which succeed for both the manufacturer and the retailer.*

Efficient events drive more volume,

which creates more funds for the retailer under an accrual system, which allows the manufacturer to run more events with the retailer.

There will be some friction in the system — *e.g.*, "special programs" that retailers insist on running at the manufacturer's expense. However, these can often be accommodated in a balanced promotional portfolio.

### **Key: Moving the Needle To More Efficient Trade Events**

The key to getting the benefits is to move the needle toward more efficient events. It doesn't require running only events in the top quartile

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of efficiency. A company doesn't even need to eliminate all the unprofitable events. Simply redirecting money from the bottom quartile to the median is sufficient to drive a 10 to 25 percent ROI improvement.

Trade promotion efficiency is a staged capability. For companies to capture the benefits of efficiency improvements, they must build a set of advanced trade promotion management capabilities. To be success-

ful, these advanced capabilities must be built on-top of a robust and reliable set of foundational capabilities. Exhibit 3 illustrates Booz & Company's tiered perspective on how these capabilities need to be built.

## The Tiered Perspective

**Foundational:** Foundational capabilities include all of the functions needed to fund, plan and pay for a

trade promotion – *i.e.*, basic capabilities that any CPG company must have.

These capabilities should be optimized for speed and efficiency, but balanced against an appropriate set of spending controls to ensure compliance with finance and auditing procedures.

Foundational capabilities are typically supported by and delivered through a company-wide CRM or ERP package.

However, deploying foundational

## UNDERSTANDING EVENT-LEVEL PERFORMANCE TO BUILD EFFECTIVE BUNDLES

**T**he most recent trend in trade promotions is **bundling**. Manufacturers and retailers agree to "packages," or "bundles," of promotion events for a single price (usually a fixed off-invoice rate).

While a portfolio of promotions provides some buffer for performance variation, it should not offer a "free pass" when it come to understanding event-level performance.

Each bundle has a value — as does each event within the package. Manufacturers and retailers need to understand how to structure the bundle — promotions included and off-invoice rate.

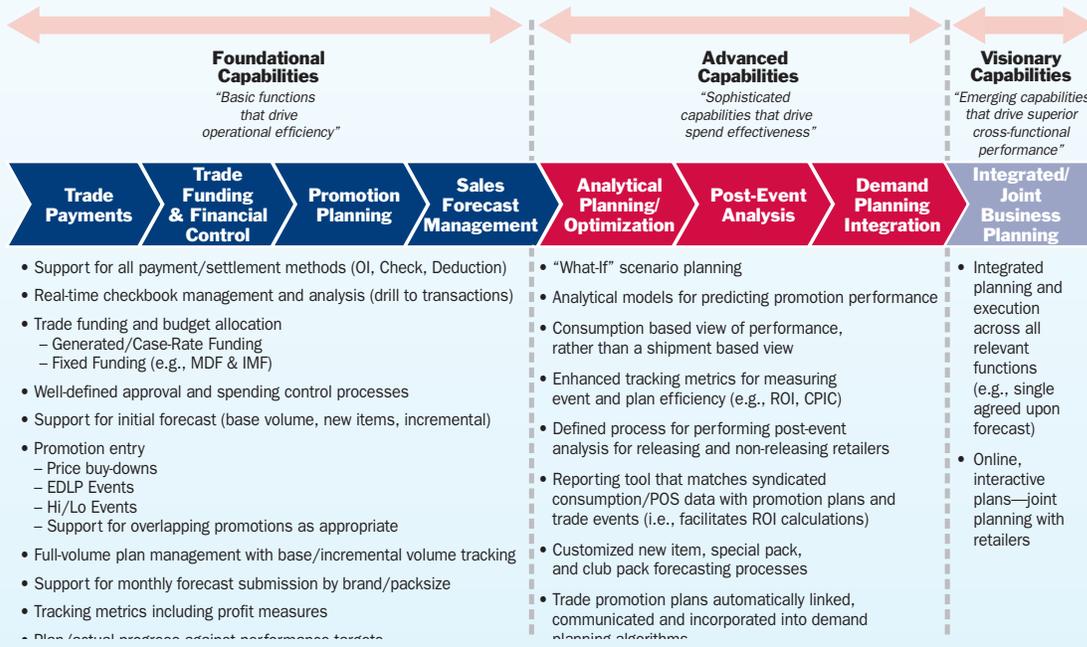
The only way to effectively build the bundle is to understand the value of the individual promotions.

The fundamentals of managing and measuring trade promotion effectiveness are the same for both individual promotions and bundles. ■

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Exhibit 3

## Trade Promotion Management Capabilities



capabilities is never an "out-of-the-box" implementation project. These capabilities must be carefully configured to meet the differing needs of each manufacturer.

Foundational capabilities should also be developed in a way that enables the deployment of advanced capabilities.

**Advanced:** Advanced capabilities focus on analytics and enable decision making that improves trade spend efficiency.

Analytical models are deployed to predict promotion performance and are accompanied by functions that enable scenario analysis.

These capabilities also include post-event analysis that integrates events' predicted performance with actual shipment, spend, and consumption

information to provide feedback on actual event performance and efficiency.

Advanced capabilities also allow trade plans, with accurate volume predictions, to be communicated to demand planning to assist in optimizing the supply chain and improving results through better retail delivery.

The importance of advanced capabilities is becoming even more critical given the level of detail available from operational point-of-sale data. With heightened levels of accuracy, companies can begin to create and respond to consumption-based demand needs on a store-by-store level.

It is now possible to understand which specific SKUs are moving for

which promotions at which stores on a particular day. Leading companies are beginning to build the analytics required to leverage this granularity to improve spend efficiency even further.

Despite vendor claims, the major systems for customer relationship management and enterprise resource planning are not pre-configured to deliver advanced capabilities.

Companies that have successfully deployed these capabilities have done so with substantial configurations, add-ons, niche packages, and other customized solutions.

**Visionary:** Visionary capabilities allow manufacturers to engage in joint business planning internally across all relevant functions, such as

**Don't start to build out advanced or visionary capabilities without first putting in place the necessary foundational capabilities.** For example, we often find tools configured to display advanced analytics, such as ROI, being deployed on top of a foundation that cannot accurately track information. The results cannot hope to be correct or truly useful to you in growing profitability.



sales, marketing, operations, and finance, to develop a single, agreed-upon forecast.

Extending these capabilities to involve retailers makes TPM completely holistic.

The challenge of deploying visionary capabilities is redesigning the business to break down the traditional differences in mindset and barriers to communication that commonly exist between various functions.

Many companies fall short of their potential because they attempt to deploy advanced capabilities without having a solid foundation.

Results can be frustrating. For example, we often find tools that are configured to display advanced analytics such as ROI being deployed on top of a foundation that cannot accurately track information, producing incorrect results.

Even worse, foundational capabilities are often inefficient, forcing users to spend hours simply entering and saving promotion plans.

### Walk Before You Run

The message in building these capabilities, then, is "Walk before you run." Don't start building out advanced or visionary capabilities without first putting in place the necessary foundational capabilities.

At the end of the day, effectively investing several hundred million to

several billion dollars in trade promotion is a critical organization capability for CPG manufacturers. The capability must be deployed using the right analytics, the right processes, the right systems, and the right organizational alignment (see Exhibit 4).

### An Individual Challenge

Every organization must determine how best to build its trade promotion management capability. Thus far we have outlined the principles that underpin the business opportunity. These principles are universal, or nearly so. Unlike these principles, the manner in which the capability is implemented is highly dependent on the company.

For example, whether an organization has a direct store delivery net-

work, brokers, a direct sales force, or some mix will affect the data available and the best method of control over planning and execution. In addition, a company's application portfolio and IT strategy will have a significant impact on how it chooses to deploy an appropriate set of trade promotion tools and systems.

By building strong foundational functions for trade promotion management, companies can shift into incorporating more sophisticated analytics that will allow them to drive spending effectiveness, superior cross-functional performance and joint business planning with their retail partners. For those who make the commitment, the rewards are significant, tangible, and timely. ■

