

Analyzing Trade Promotions

DOES A SOLUTION EXIST?

For years we have been talking about the huge dollars that are spent on trade promotions with little insight into their effectiveness. Trade Promotion Management (TPM) has become one of the most critical technologies as companies spend millions to implement software and processes to help gain control of their spend and increase its effectiveness. Vendors are delivering continually more sophisticated solutions, including some with optimization capabilities. Yet as this month's survey, conducted with Cognizant, shows, we are still struggling as an industry with this important initiative.

Unfortunately, the research doesn't reveal much improvement in understanding which promotions are successful and why, with much of the blame placed on technology and data, or lack thereof.

Just the Facts

Trade spend as a percent of revenue still hovers at around 15 percent to 20 percent, but the ups and downs experienced over the last few years, decreasing in 2009 and increasing in 2010, seems to have settled down with more than half of this year's respondents reporting no changes expected in 2011.

That's the good news. The bad news is that promotion events overall are often unsuccessful (*see Figure 1*), and many companies aren't consistently analyzing them to understand why and make corrections: 47 percent report promotions are effective less than half the time, and only 5 percent claim to always meet stated objectives. In addition, a whopping 66 percent don't rank or analyze up to half of their events and, of those that do, most are using spreadsheets or standard business intelligence ap-

FIGURE 1: Effectiveness of Trade Promotion Events

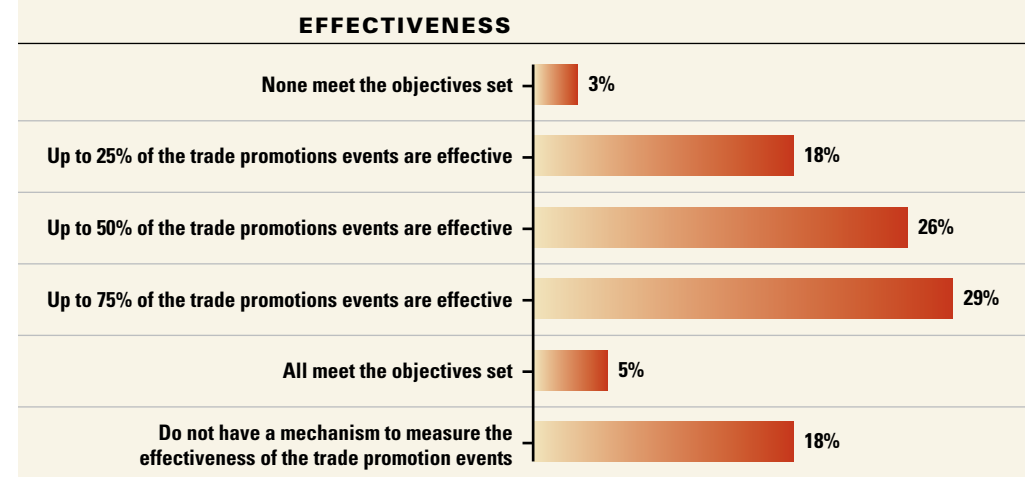
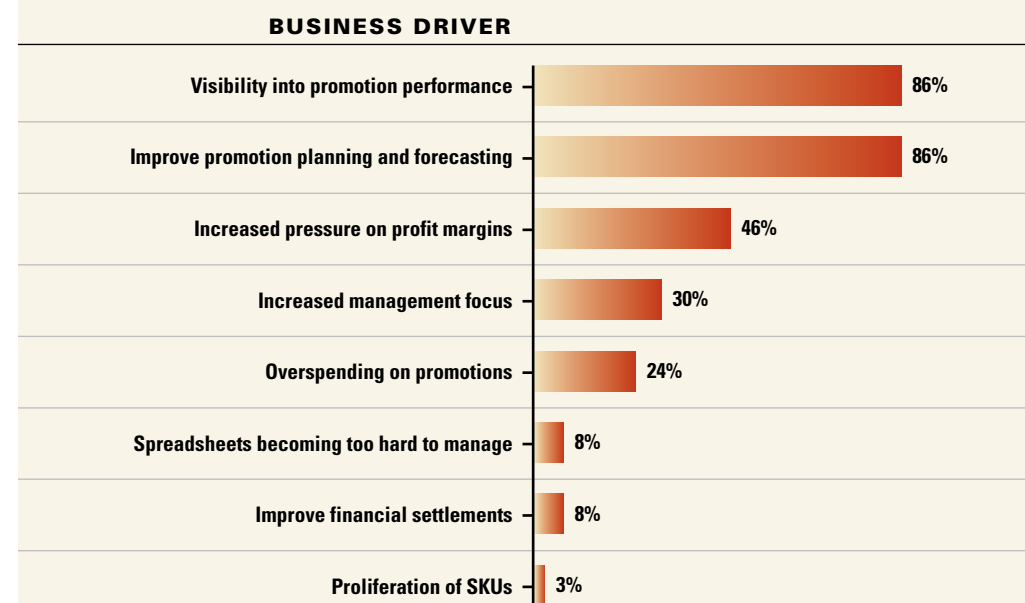


FIGURE 2: Business Drivers for Analyzing Trade Promotions



CUSTOM RESEARCH

plications rather than trade-specific solutions.

Can Technology Help?

Can analysis really help? The answer seems to be a resounding “yes!” The primary business drivers behind analyzing promotions for almost every respondent (86 percent) are visibility into promotion performance and improved plans and forecasts (see Figure 2). This leads to impressive benefits, particularly increasing the quality of promotion execution and improving the bottom line contribution. Curiously, for companies under \$10 billion, consumer-related benefits, like brand equity and consumer value, were not perceived as top benefits.

So if we agree that too many promotions are unsuccessful, and yet past research tells us the industry has some level of transactional TPM systems in place to manage the tactical end, why is the analysis not occurring? Our respondents claim the top

barriers involve technology, specifically data quality and data availability. Slightly lower in blame are lack of time and lack of appropriate and easy to use tools. Most believe point-of-sale and shipment data are essential inputs for analysis, with syndicated data and qualitative data from the sales force next in line. Despite all the hype about social media, only 3 percent believe sentiment analysis from social media should be used when reviewing promotions.

Our research asked what, then, would help in better analyzing promotions, and it seems companies want many options with only 21 percentage points separating the top and bottom responses. Roughly 70 percent want root cause analysis, optimal spend predictions and performance summaries, while slightly fewer thought that performance by promotion type would help. Roughly half also requested spend optimization by account and market mix analysis. ❖

Overcoming the Trade Promotions Management Conundrum

By J. Gregory “Greg” Smith, Director, Cognizant Business Consulting, Consumer Goods Practice, Cognizant

Manufacturers and retailers face increasingly sophisticated shoppers, with rapidly changing behaviors, expectations and loyalties. Cognizant, in partnership with CGT, conducted a survey on trade promotion management (TPM) to shed light on these shifts.

TPM professionals understand the business drivers and benefits of TPM and trade promotion optimization (TPO). What is unclear is the reason for the low level of ongoing analysis, prioritization and rationalization of trade promotion events. This is an industry conundrum given the large marketing spend in this area — close to 30 percent of those surveyed plan to increase spend in 2011 — and the profitability analysis CFOs are requiring of all major investment areas.

The ability of marketing, sales and technology organizations to collect, analyze and amass sophisticated TPO data is increasingly taxing to current systems. Key actions consumer goods companies should take:

- Accelerate construction of TPM/TPO data marts to bring together disparate data (i.e., POS, Nielsen, SymphonyIRI and Digital Media) while standardizing the data to make analysis possible.
- Bring together people, processes and systems to perform predictive analytics on optimal targeted programs. TPO can no longer be an ad hoc activity.
- Adapt to the new realities of sophisticated shoppers who are knowledgeable about promotions. Retailers and brands must work together to ensure higher in-store compliance or else risk shopper brand-switching in store.

Because of the high correlation between comprehensive TPO and trade promotion effectiveness, the future of shopping requires root cause analysis, optimized spend prediction and summary performance analysis to drive higher performance. Shareholders should demand no less.



DOWNLOAD NOW

Click here to read the research in its entirety.

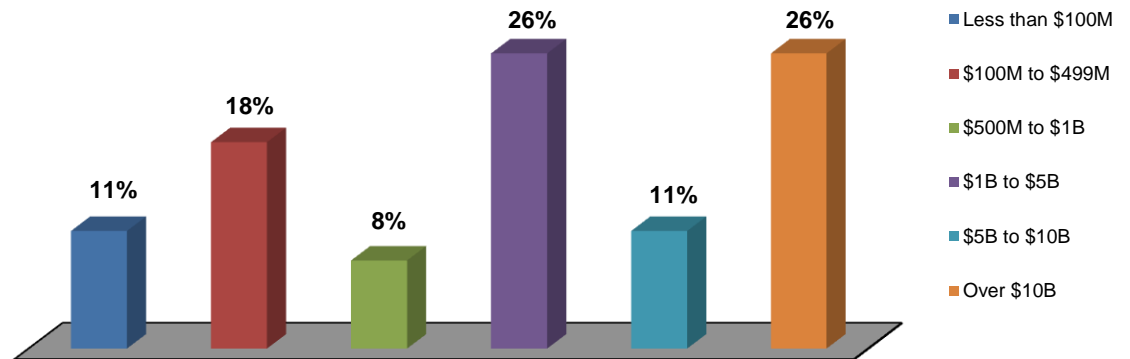


Consumer Goods Technology

March 2011

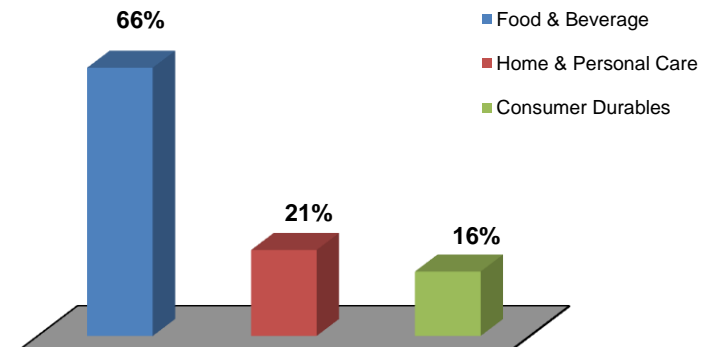
1. What was your company's annual revenue in 2010?

Annual revenue	%
Less than \$100M	11%
\$100M to \$499M	18%
\$500M to \$1B	8%
\$1B to \$5B	26%
\$5B to \$10B	11%
Over \$10B	26%



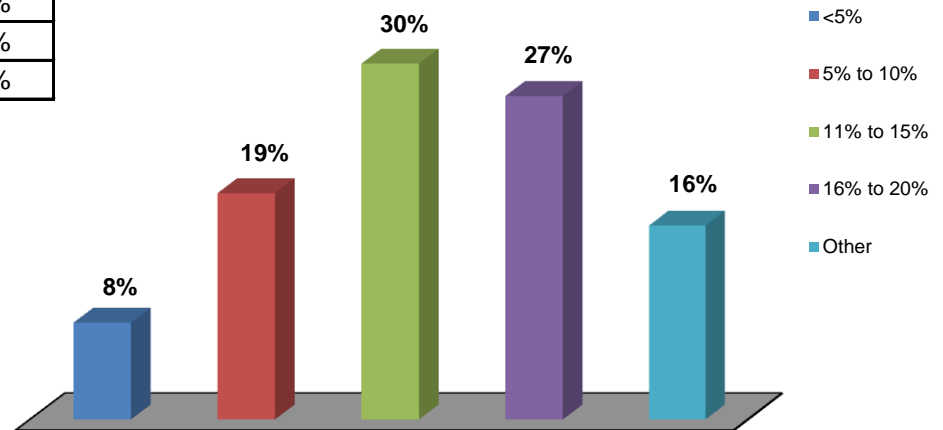
2. What types of products do you manufacture?

Products	%
Food & Beverage	66%
Home & Personal Care	21%
Consumer Durables	16%



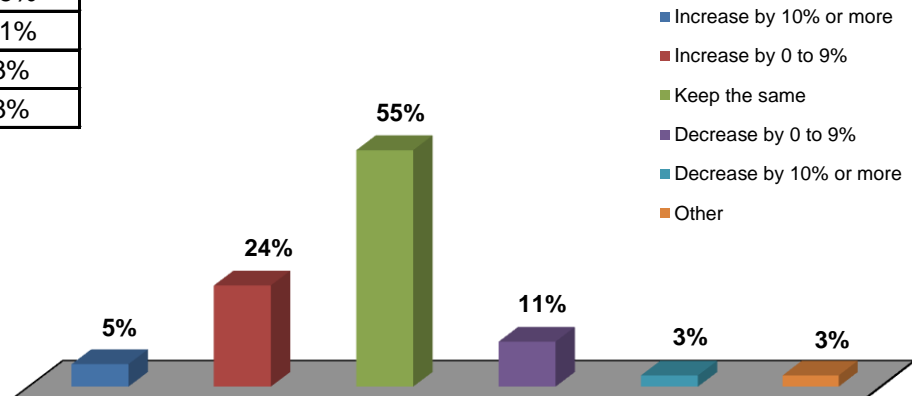
3. How much is your trade promotion spend as a percentage of revenue?

Trade promotion spend	%
<5%	8%
5% to 10%	19%
11% to 15%	30%
16% to 20%	27%
Other	16%



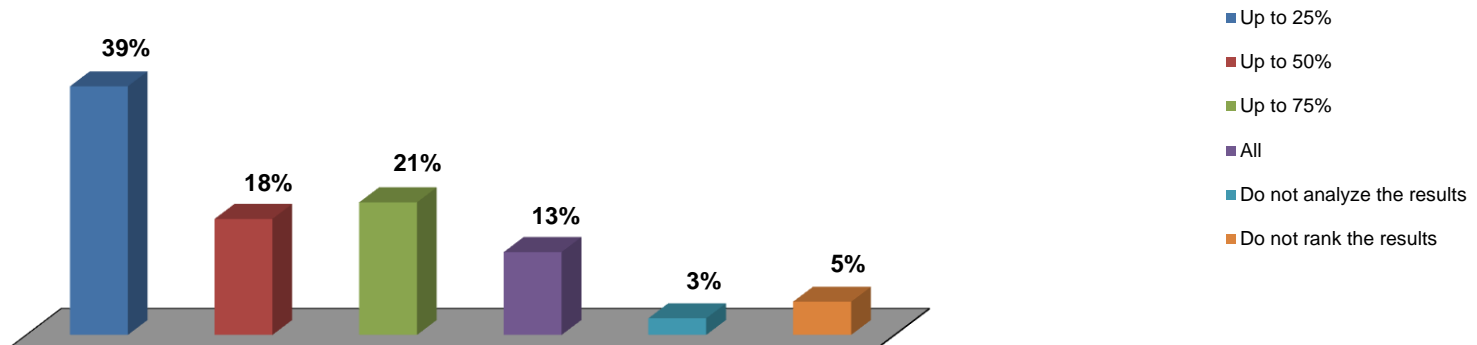
4. Will you increase or decrease the spend on trade promotion in 2011?

Spend	%
Increase by 10% or more	5%
Increase by 0 to 9%	24%
Keep the same	55%
Decrease by 0 to 9%	11%
Decrease by 10% or more	3%
Other	3%



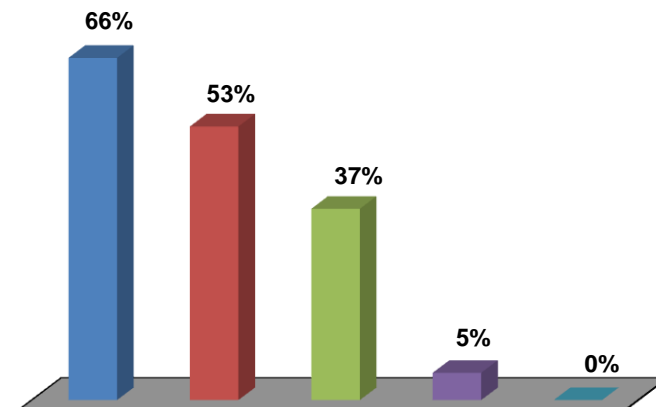
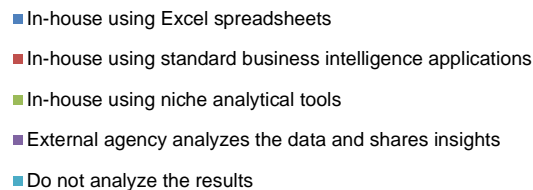
5. How many of your trade promotion events are ranked and analyzed after event execution?

Ranked and analyzed	%
Up to 25% of the trade promotion events are ranked and analyzed	39%
Up to 50% of the trade promotion events are ranked and analyzed	18%
Up to 75% of the trade promotion events are ranked and analyzed	21%
All trade promotion events are ranked and analyzed	13%
Do not analyze the results	3%
Do not rank the results	5%



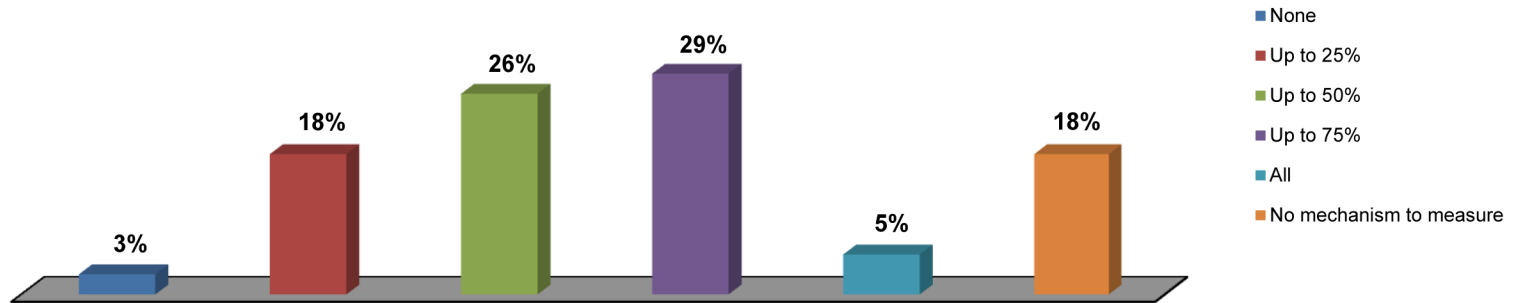
6. How are the results / outcome / data from the trade promotion analyzed? *Multiple responses permitted.*

Analyzed	%
In-house using Excel spreadsheets	66%
In-house using standard business intelligence applications	53%
In-house using niche analytical tools	37%
External agency analyzes the data and shares insights	5%
Do not analyze the results	0%



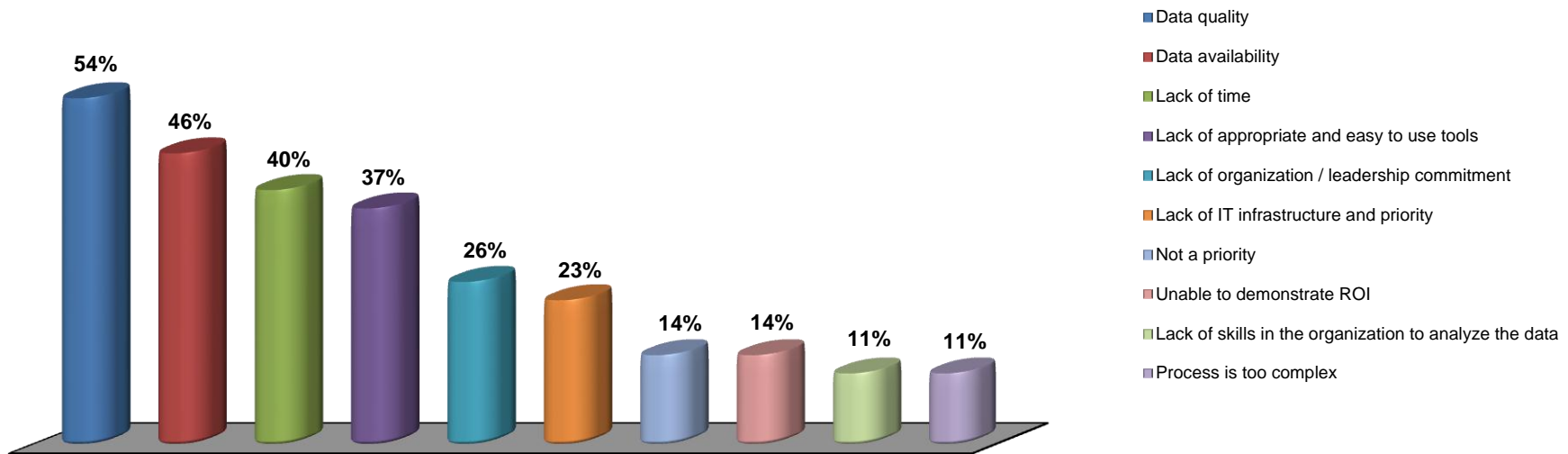
7. How effective are trade promotion events in meeting the objectives set?

How effective	%
None meet the objectives set	3%
Up to 25% of the trade promotions events are effective	18%
Up to 50% of the trade promotions events are effective	26%
Up to 75% of the trade promotions events are effective	29%
All meet the objectives set	5%
Do not have a mechanism to measure the effectiveness of the trade promotion events	18%



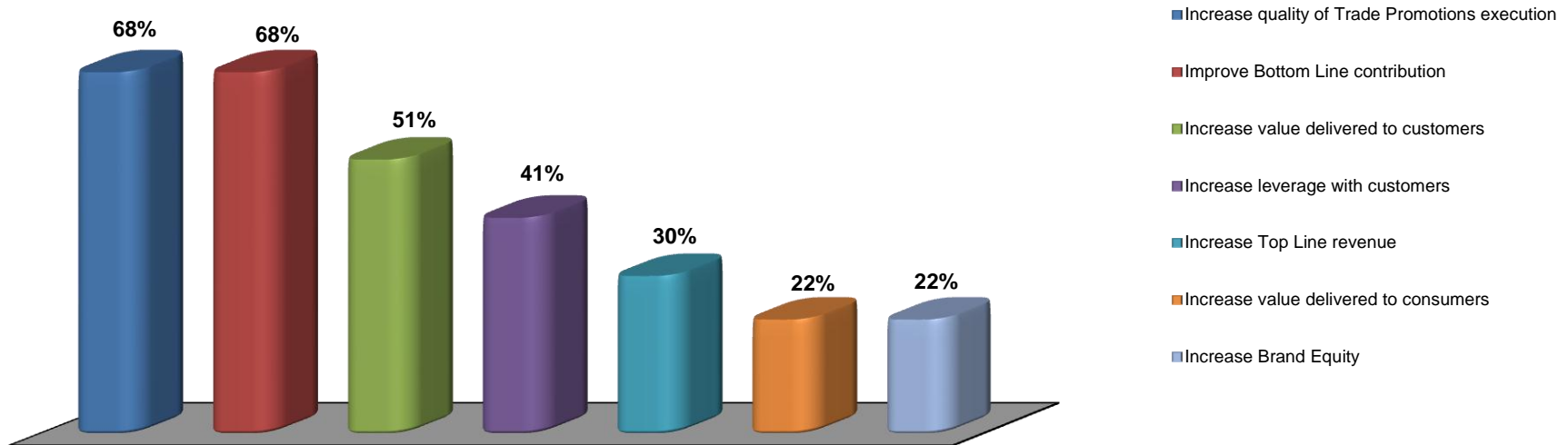
9. What are the TOP 3 barriers to effective analysis of your trade promotion events?

Barriers	%
Data quality	54%
Data availability	46%
Lack of time	40%
Lack of appropriate and easy to use tools	37%
Lack of organization / leadership commitment	26%
Lack of IT infrastructure and priority	23%
Not a priority	14%
Unable to demonstrate ROI for the investments required for analysis (people, tools, training)	14%
Lack of skills in the organization to analyze the data	11%
Process is too complex	11%



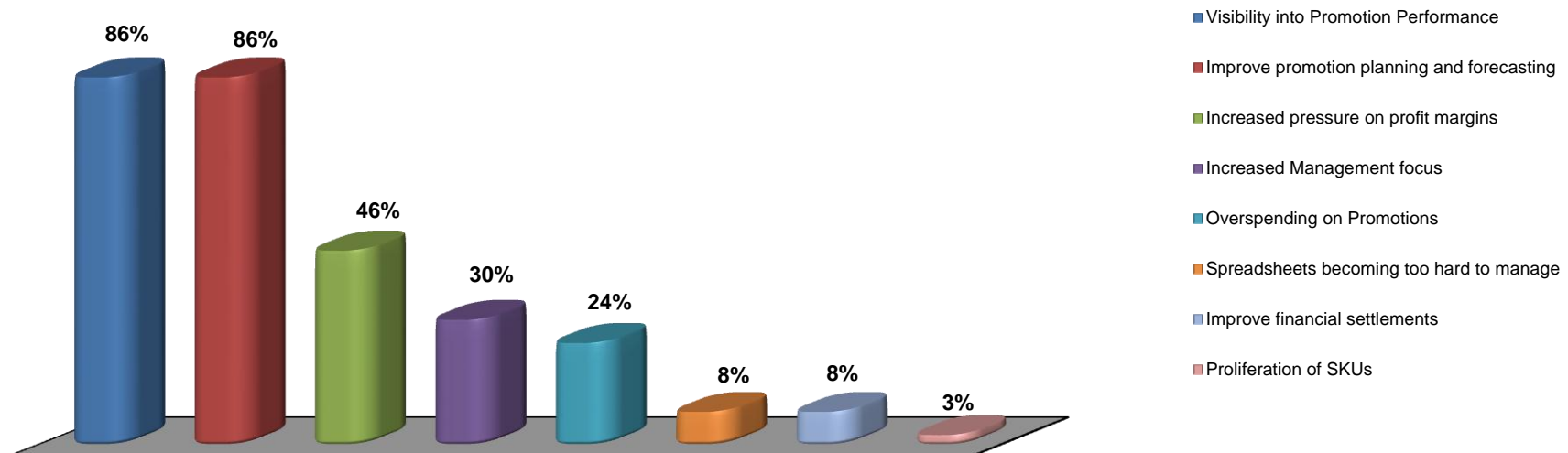
10. Please select the TOP 3 benefits that effective analysis of TPM spend will delivery for you.

Benefits	%
Increase quality of Trade Promotions execution	68%
Improve Bottom Line (Gross Margin) contribution	68%
Increase value delivered to customers (retailers)	51%
Increase leverage with customers (retailers)	41%
Increase Top Line (sales) revenue	30%
Increase value delivered to consumers	22%
Increase Brand Equity	22%



11. What are your TOP 3 business drivers for analyzing Trade Promotions?

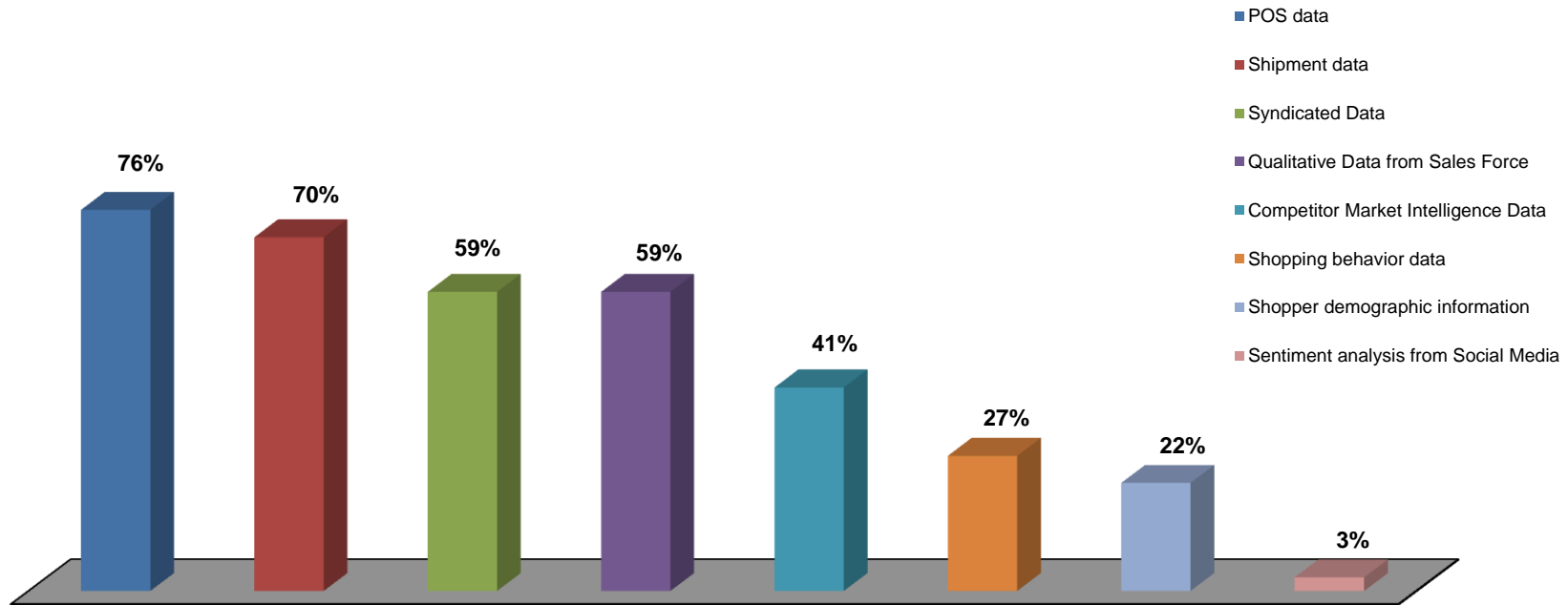
Business drivers	%
Visibility into Promotion Performance	86%
Improve promotion planning and forecasting	86%
Increased pressure on profit margins	46%
Increased Management focus	30%
Overspending on Promotions	24%
Spreadsheets becoming too hard to manage	8%
Improve financial settlements	8%
Proliferation of SKUs	3%



12. Choose the data sources that you believe are essential for analyzing trade promotions effectiveness.

Multiple responses permitted.

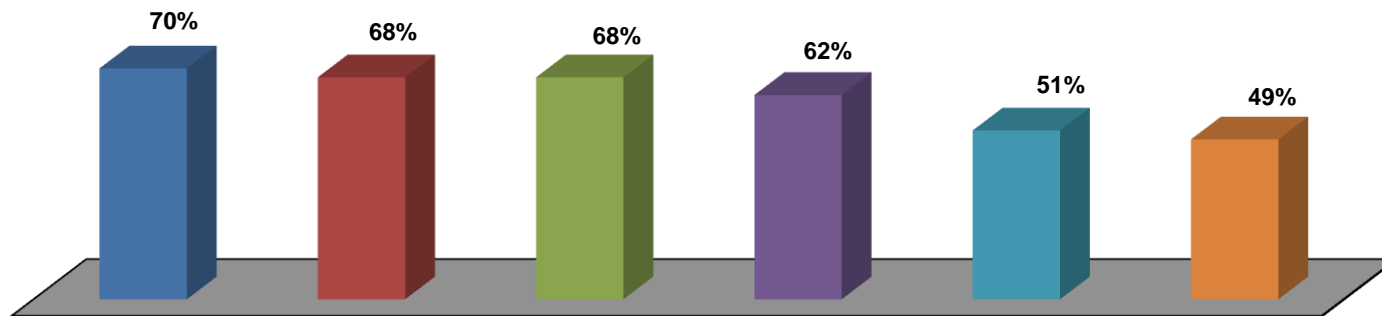
Data sources	%
POS data	76%
Shipment data	70%
Syndicated Data	59%
Qualitative Data from Sales Force	59%
Competitor Market Intelligence Data	41%
Shopping behavior data	27%
Shopper demographic information	22%
Sentiment analysis from Social Media	3%



13. Choose the reports / services that, if available, would help you in analyzing trade promotions better.
Multiple responses permitted.

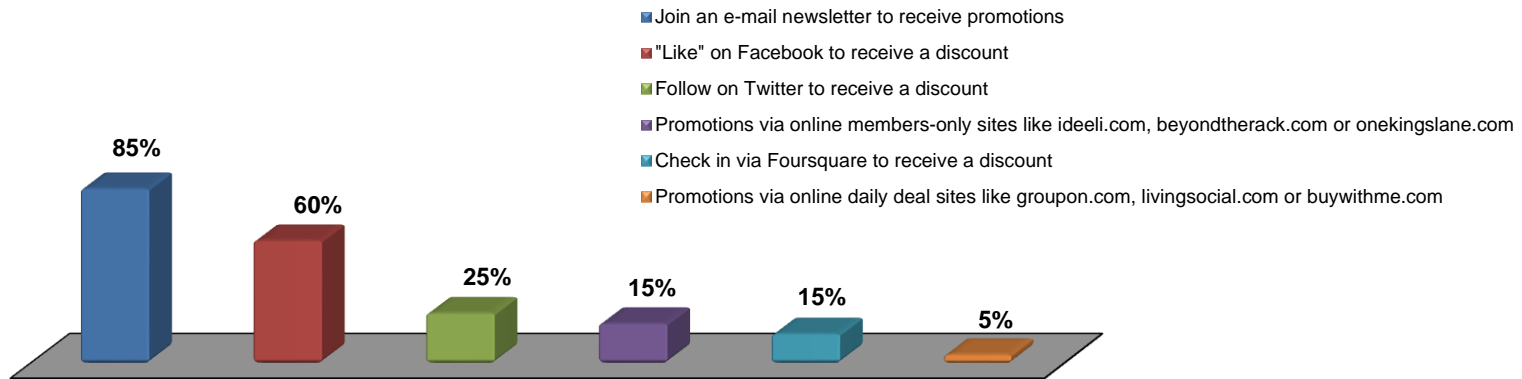
Reports / Services	%
Root causes for non-performance of strategic promotions	70%
Optimal spend prediction across promotion events during the pre-event promotion planning	68%
Summary of performance of all promotions for a specified time period	68%
Performance of promotions by promotion type	62%
Spend optimization across accounts	51%
Market Mix analysis and optimization across channels / events	49%

- Root causes for non-performance of strategic promotions
- Optimal spend prediction across promotion events during the pre-event promotion planning
- Summary of performance of all promotions for a specified time period
- Performance of promotions by promotion type
- Spend optimization across accounts
- Market Mix analysis and optimization across channels / events



14. Which of the following digital promotions have you executed in the past year? *Multiple responses permitted.*

Digital promotions	%
Join an e-mail newsletter to receive promotions	85%
"Like" on Facebook to receive a discount	60%
Follow on Twitter to receive a discount	25%
Promotions via online members-only sites like ideeli.com, beyondtherack.com or onekinglane.com	20%
Check in via Foursquare to receive a discount	15%
Promotions via online daily deal sites likegroupon.com, livingsocial.com or buywithme.com	5%



15. Do you see a future where manufacturer coupons are automatically redeemed at POS in the next 5 years?

Future	%
Yes	81%
No	19%

