

View Point



Trade Promotions Management in the CPG industry

Kishor Gummaraju, Badri Narayanan and Gunjan Anurag

Abstract

Targeting shoppers with relevant promotions to induce them to buy more is a major challenge confronting CPG organizations. Although trade promotions are a significant part of marketing expenditure, most CPG companies are unable to improve the ROI of these funds due to issues including lack of accurate and timely information, inability to plan promotions leveraging analytical insights, ineffective integration and lack of an appropriate performance management framework. This paper outlines the 3 I's of success – Integration, Insight and Implementation – that enables CPG companies to create win-win in trade promotions.

Introduction

Consumer Packaged Goods (CPG) companies today focus on rapid product innovation, building consumer and retailer relationships and supply chain improvements in order to improve performance at the retail shelf. A major challenge confronting CPG marketers is targeting shoppers with relevant promotions to induce them to buy more. As CPG companies rely on consumer and trade promotions to move product, most companies face challenges in:

- Effective promotion planning
- Accurately monitoring trade funds and promotional dollars and
- Measuring the promotions effectiveness on sales

Trade Promotion (TP) is a key component of CPG category & brand management and can help improve:

- Product distribution width
- Retailer relationships
- Increased shelf visibility
- Consumption
- Consumer penetration and
- Price negotiations

However, there is considerable dissatisfaction with TP effectiveness. In 2004, CPG firms spent \$100 billion on TP, but less than 30% of the programs were profitable. The average return per dollar spent on promotions was about \$0.65. Despite this, only 30% of CPG firms measured their promotional results.

Sluggish market conditions, severe profit margin pressure, growing presence of private label brands, sales, financial and regulatory mandates (SOX, FSAB etc.) require CPG firms to control and manage trade funds better.

Critical issues in TPM

Although promotions are a significant part of marketing expenditure, most CPG companies are unable to improve the ROI of these funds. The primary reasons for this are:

(a) Lack of accurate and timely information

Poor data integration across multiple sources — both internal and external — slows the decision-making process and forces decisions based on sub-optimal information. While sales and marketing managers are inundated with information related to promotions, products and brands, critical questions relating to retail compliance, forecasting accuracy, post-promotion performance may remain unanswered. These can include:

- Impact of recent promotions on household penetration and repeat purchase by consumers
- Degree of compliance for measures such as consumer pass through and plan-o-gram by large retailers for promotions in the last quarter
- Accuracy of trade promotion forecasting against actual sales and production
- Product assortment that generates incremental profits rather than category/product cannibalization

In addition to having multiple data sources, CPG firms are faced with multiple platforms, data formats, hierarchies and needs. The challenge is to integrate and present the data in an appropriate and timely fashion to facilitate decision making.

(b) Inability to plan promotions with analytical and predictive capabilities

Accurate promotion planning can be accomplished when historical results are evaluated and the learning used for the development of new plans.

In the absence of processes and systems that support analytical and predictive capabilities, promotion management efforts can lead to a decreased focus on the key drivers. Poor visibility to critical information - promotion success rates, channel efficiency and retailer servicing costs - can significantly limit the effectiveness of future promotion spends.

(c) Ineffective integration within the organization and across trading partners

Effective marketplace execution requires effective integration within the organization and across channel partners. Figure 1 illustrates factors that can lead to poor integration and impair promotional effectiveness.

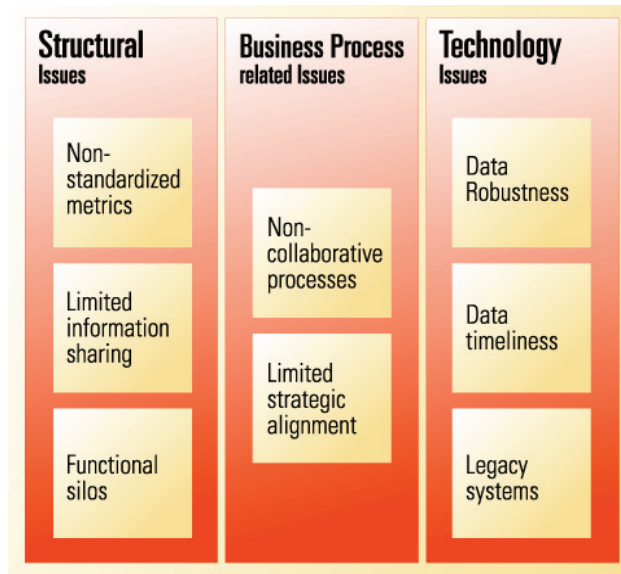


Figure 1

Poor alignment between brand and retailer strategy, promotion objectives and organizational entities involved in trade promotion execution result in disparate objectives among internal and external partners as illustrated in Figure 2.

In the changing retail landscape, decline in grocery share and the advent of alternative retail formats, require CPG companies manage their channels and, consequently, trade funds differently.

Retailers, who have to manage multiple promotions across product categories at any given time, are forced to focus on maximizing immediate gains. This is at the expense of a more collaborative approach that optimizes promotion efficiencies between them and CPG marketers. The multitude of CPG firms' retailers deal with makes it hard to adopt a uniform collaborative approach to promotion planning.

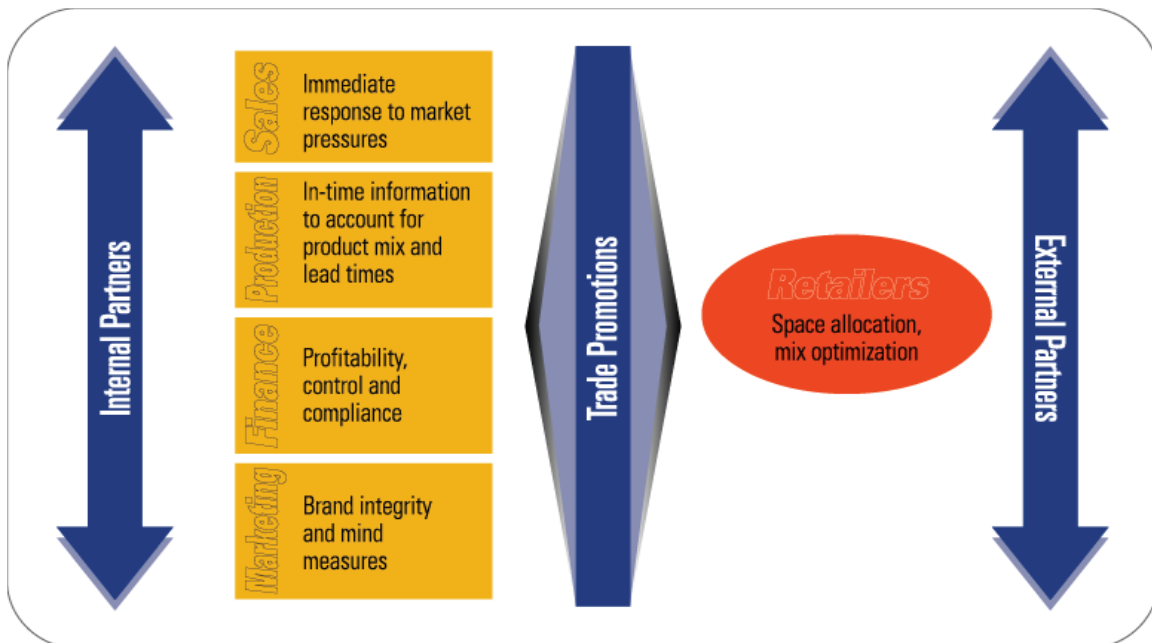


Figure 2 – Trade Promotion alignment between internal functions and channel partners

(d) Lack of appropriate performance management framework

Running efficient promotional events is a win-win proposition for both manufacturers and retailers. The challenge however is to measure bottom line impact, to enable the refinement and subsequent implementation of effective campaigns.

Trade promotion performance and the effectiveness of promotional tactics need to be evaluated against pre-determined objectives and KPIs (Key performance Indicators). Inability to identify and evaluate performance based on the “right” indicators can limit the understanding of promotion effectiveness. Hence KPIs should be used to enable superior promotion planning, selection of promotion types and deployment of trade funds.

Approach to Trade Funds Management

An effective TPM process should enable companies to consistently achieve critical operational and financial outcomes. Infosys' TPM approach provides a robust foundation for in-depth analysis and accelerated decision-making. It enables CPG companies to focus on the 3 I's of success – Integration, Insight and Implementation – to achieve win-win trade promotions.

Integration

Successful execution of Trade Promotions requires:

1. Successful organizational integration

- **Coordination across functional silos**
TPM should be highly coordinated between sales, marketing, supply chain, and manufacturing, given the increasing need to focus on shopper- behavior within channels
- **Integration of pricing and promotion decisions**
Promotions and pricing strategies must concur to avoid affecting brand image

2. Effective integration with channel partners

- **Convergence**
CPG brand strategy should be closely aligned with a retailer's merchandising strategy to deploy trade funds appropriately and reach shoppers effectively
- **Coordination**
Trade promotion strategy should be aligned with execution. Sales team within CPG companies should plan trade promotions with the retailer's category management team. A lack of involvement of the supply chain members in these discussions could lead to significant gaps in execution

Infosys' 8-step TPM process (Figure 3) helps refine trade promotion processes to establish a seamless integration with channel partners and across organizational silos.

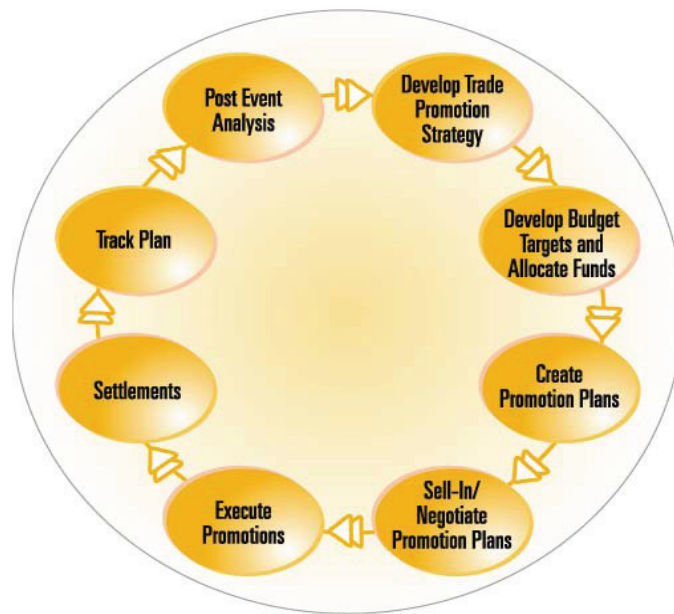


Figure 3: Infosys' 8-step TPM process

Insights

Managing promotions is more effective, when technology is leveraged to provide:

- **Extended visibility**
Marketers must view data across multiple systems, data sources, dimensions, and hierarchies in a meaningful and timely manner. Tools must deliver visibility to events, plans and results and provide alerts when outcome deviates from plan
- **Robust analytics**
Information viewed in isolation is deceptive. It is critical to deploy analytical tools to gain insights based on correlations across multiple data sources
- **Seamless execution**
Deploying workflow tools with built-in monitoring mechanisms can enable seamless execution across functional boundaries. Integration with analytic tools can provide real-time decision-making and insight-driven execution

Deploying tools and techniques to provide actionable business insights, supported by business processes that enable closed-loop promotion planning and execution, are critical elements of successful trade promotions.

Implementation

A TPM solution's success and longevity depends on the quality of its implementation. Criteria for successful implementation include:

- **Establishing new metrics**
Business processes change. Visibility to new data across multiple customers, channels and the availability of new tools, make many existing KPIs sub-optimal. Companies should revisit KPIs on a continuous basis and establish relevant metrics
- **Changing mindset**
Education, communication and metrics alignment can help refine practices necessary to cope with changing channel dynamics e.g., Wal-Mart EDLP etc.

- **Establishing new business processes**

Integration and collaboration within the organization and with channel partners requires new business processes. These may vary based on:

- Brand (strategic importance and brand strategy)
- Distribution model (DSD/Warehouse)
- Customer (EDLP/Hi-Lo)
- Channel (relative importance) and
- Shopper (trip behavior)

Conclusion

Changes in the retail channel landscape and in shopper-trip behavior mandate that trade promotion practices reflect market realities. To effectively compete in this environment, TPM strategy, processes and practices must change to reflect shifting channel and shopper dynamics. The current practices to manage trade promotions fall short of addressing the challenges posed by these emerging trends. CPG companies must focus on the 3 I's of success – Integration, Insight and Implementation – to achieve win-win trade promotions.

References

1. GMA Trade Promotions Study - Grocery Manufacturers of America 2003
2. McKinsey survey on Customer and Channel Management - 2005
3. AMR Research – “This month in Consumer Products”, May 2005
4. Infosys Research

About the Authors:

Kishor Gummaraju, a Senior Principal Consultant in the Retail and CPG Practice, Infosys Ltd, with over 13 years experience in the retail and CPG industry. He has a degree in management from the Indian Institute of Management, Lucknow. He can be reached at kishor_gummaraju@infosys.com.

Badri Narayanan is a Senior Consultant in the Retail and CPG Practice in Infosys Ltd. He has over 6 years of experience in brand and customer management. He has a management degree from the Indian Institute of Management, Bangalore. Badri can be reached at badri_narayanan@infosys.com.

Gunjan Anurag is a Consultant in the Retail and CPG Practice in Infosys Ltd. He has over 6 years experience in brand and customer management. He has a management degree from the Indian Institute of Management, Bangalore. Gunjan can be reached at Gunjan_Anurag@infosys.com.



For more information, contact askus@infosys.com

About Infosys

Many of the world's most successful organizations rely on Infosys to deliver measurable business value. Infosys provides business consulting, technology, engineering and outsourcing services to help clients in over 30 countries build tomorrow's enterprise.

For more information about Infosys (NASDAQ:INFY), visit www.infosys.com.