



## GETTING IT RIGHT: THE SECRET MIX TO MAKING YOUR TRADE PROMOTION WORK

### Abstract

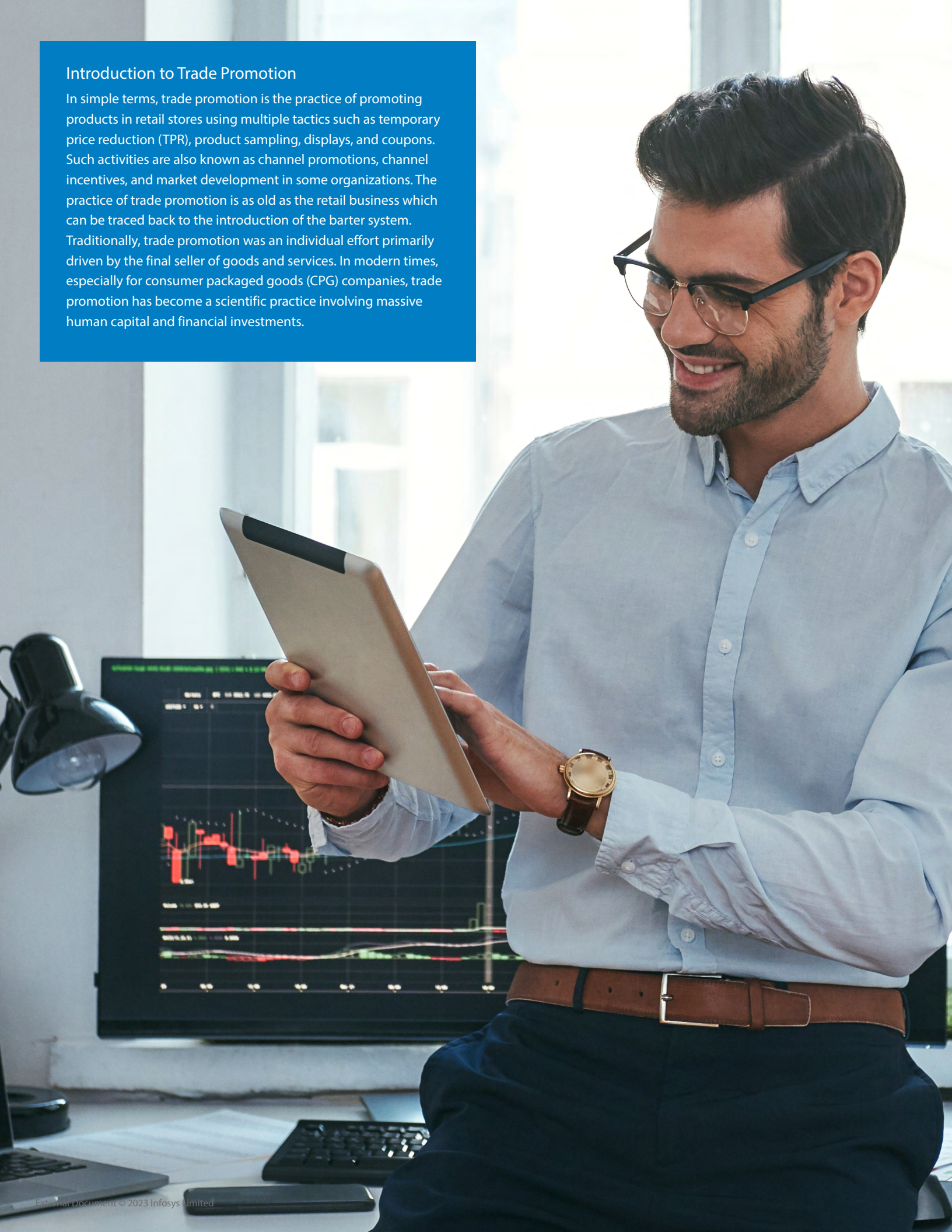
The core goal of trade promotion activities is to target the right end consumer with the right product as a way for businesses to differentiate themselves in the crowded marketplace. From individual owners running promotional activities to large businesses using multiple marketing channels for campaigns, trade promotion has come a long way. However, there are many aspects that enterprises need to take care of to generate a healthy ROI from their trade promotion spending.

This paper discusses various reasons why over half of all trade promotions fail and proposes several areas that enterprises must improve on priority to meet their business goals and derive maximum value from their trade promotion investments.



## Introduction to Trade Promotion

In simple terms, trade promotion is the practice of promoting products in retail stores using multiple tactics such as temporary price reduction (TPR), product sampling, displays, and coupons. Such activities are also known as channel promotions, channel incentives, and market development in some organizations. The practice of trade promotion is as old as the retail business which can be traced back to the introduction of the barter system. Traditionally, trade promotion was an individual effort primarily driven by the final seller of goods and services. In modern times, especially for consumer packaged goods (CPG) companies, trade promotion has become a scientific practice involving massive human capital and financial investments.





## Current Scenario in Trade Promotion Management

Knowledge of demography, buying patterns, social influences, and better local bargaining power are primarily responsible for driving the business of local advertising and trade promotions. Spending on trade promotions has shifted from the manufacturer to the wholesaler or retailer. The current scenario in investment versus return on investment (ROI) for trade promotion practices is as follows:

- Trade promotion spending is generally the second largest line item in the yearly financial statement of organizations preceded only by the cost of goods.
- Organizations across the world invest more than 20% of their yearly gross revenue on trade promotion activities. In general, the percentage ranges between 18% - 25% of yearly gross revenue based on the size of the organization.
- Rough estimates indicate that companies worldwide are spending over US \$1 trillion annually on trade promotions.
- A conservative view on the success of trade promotions indicates that more than 50% of trade promotions fail to generate ROI.

The simplified definition of trade promotion does not provide a view on the intricacies, science, and massive investments behind the planning and execution as well as measurement of the success

of trade promotions. However, the financial numbers above provide a glimpse into the importance of trade promotions for companies across the world.

A trillion-dollar economy centered only around trade promotion activities with a failure rate of more than 50% is not an acceptable proposition.

### Key questions

To address this issue, organizations need to seek answers to some important questions:

1. What are the reasons behind the high failure rate of trade promotions?
2. What indirect factors are responsible for the poor ROI of trade promotion investments?
3. Is there a broader framework to improve the success rate and value for money from trade promotions?
4. Is the manufacturer or the CPG business paying the price for insufficient ROI generation and losses incurred for executing trade promotion activities?

Depending on the perspective and experiences, the answers to these questions may vary. In the upcoming sections, we have attempted to explore these aspects with a broad outlook.



## Key Factors Impacting the Success of Trade Promotions

### Right product, price, place, and promotion for the right consumer

This has always been the mantra for the success of trade promotion activities and has been borrowed from the 4 Ps of marketing. The approach involves the right product promotion at the right price, launching the product at the opportune time at the right place with the right mechanism to reach out to the right audience. With the expectation of several simultaneous “rights”, even a single “wrong” in the chain can lead to the failure of the promotion.

Let us analyze why each “right” is important.

- The right product at right price is the first ask. Planning a winter product promotion in summer and vice versa will not produce the desired results. When the prices of competing products are temporarily and significantly down in the market, a promotion focusing only on display and sampling with minimal changes in pricing may not deliver positive outcomes. Assortment is important and so is the price.
- The right placement of the product to ensure the right visibility in the store and the right mechanism to reach out to the customer are equally important parameters. Following the customer across the complete value chain starting from building awareness, influencing choices, and leading them to the buy stage is part of the right promotion mechanism. Without the right promotion, businesses can lose the customer at any stage of the value chain.
- Finally, targeting the right consumer is critical. Every organization has limited resources. Wasting resources on multiple vaguely-defined consumer profiles will not yield the desired results due to divided focus. The probability of conversion should be identified in the initial stages of the consumer value chain to direct finite resources towards the right consumer.

### Evolving consumer journey

Retail channels have evolved to multi-tier distribution leveraging digital marketplaces, ecommerce, social media, and mobile platforms. The customer journey has also evolved from limited personas and touchpoints to limitless personas and touchpoints. A successful trade promotion activity is always associated with a specific stage of the consumer value chain. However, trade promotion has not been able to adapt at the same pace and deliver planning /execution agility and uniformity of communication and promotion execution across channels to its consumers.

This raises the question - are trade promotion strategies aligned to the important stages of the consumer’s journey towards buying and post-buying activities?

There are numerous buying options available to consumers at various stages of their journey. Trade promotion activities that focus only on the final stage of the consumer journey cannot produce the desired results. Starting from generating awareness and building interest to the actual purchase and moving towards retention and advocacy, trade promotion initiatives must promote the consumer journey towards culmination and post purchase.

Any trade promotion should start by creating a sense of need, develop this need to a one-time requirement, and finally convert it to a repeated requirement. CPGs must move from product-centricity to consumer-centricity and finally to value-driven centricity where the consumer and the business succeed together. Trade promotion as a practice must drive this relationship shift between businesses and the consumer.

### Alignment of intent

CPG organizations and distributors/retailers are the two main stakeholders of the trade promotion process. Another key stakeholder is the sales team represented by the account manager and field sales representatives who have a huge influence on the outcome of any trade promotion activity. Let us analyze the KPIs for all three key stakeholders towards the success of promotional activities.

- The organizational intent for trade promotions is clear. Businesses want to utilize the localized demographic, social knowledge, and negotiation skills of retailers to promote their products in the local market to beat the competition and become the market leader in their respective category segments. Hence, funds are channelized for effectively supporting the trade promotion and running brand building exercises across retail channels.
- Retailers are under constant pressure for their profitability or margins. While there is consistency in revenue growth, especially for big retailers, the margins have been declining for big as well as small retailers. Hence, the financial incentives being provided through trade promotion activities are a mechanism to protect margins with the secondary goal of additional revenue generation through trade promotion activities.
- Sales teams are driven by their targets for volume and revenue growth. Their focus is on selling the product to retailers. They are less interested in inventory at the retail store and selling to end customers.

The current trade promotion scenario has three key stakeholders driving the overall trade promotion activities with three different motives – one focusing on the end consumer, one primarily on retailers, and one primarily on their margins. Until the consumer becomes the key focus for all stakeholders, trade promotion activities cannot achieve the real objective of driving growth and brand value for companies.



## **Integrated business planning**

Big organizations have smaller organizations such as sales, marketing, supply chain, manufacturing, and HR operating within themselves. Typically, organizations have large disconnects and collaboration challenges between these functions.

The sales team drives trade promotion activities for all organizations. They are in the field and have developed ties between the organization and retailers to make the right deal on promotions and have the means to ensure compliance. The marketing team knows more about end consumer behavior in comparison to any other team in the organization but is not plugged into the planning and execution of trade promotion activities. Sometimes, the direct-to-consumer (D2C) promotion activity run by marketing teams is in direct conflict with trade promotion activities being run in stores. Such conflicts prevent both teams from meeting the ROI for their respective initiatives.

Sales and marketing are two key market-facing functions of an organization. With their expertise divided across retailers and consumers, it is imperative that both teams collaborate and work in alignment. An integrated trade promotion planning, execution, and feedback mechanism incorporating inputs from both sales and marketing teams is a key factor for the success of trade promotion activities.

## **Availability of field data**

Field data includes data originating from the point of sale (PoS) as well as data about the local demographic, seasonal buying patterns, and local social factors impacting consumer behavior. There are two aspects associated with this data. One is the quality of data which impacts promotion planning and the other is timely availability of data to facilitate quick decision-making during promotion execution.

In general, CPG organizations have limited data visibility as wholesalers and retailers are the real owners of critical field-level information. But there are no processes in place for data sharing between wholesalers/retailers and CPG companies. Two critical stages namely promotion planning and promotion execution are impacted due to limited and delayed availability of field data.

Promotion planning is conducted based on inferences derived from historical promotion data and inputs from the sales team and retailers. In the absence of complete field level information, there is a possibility of skewed promotion planning which takes only the global and already known factors into account, and is devoid of local intricacies, thus impacting the overall promotion performance.

Promotions usually run for a few hours, days, or weeks. During this limited duration, if field information such as PoS data is not available to the CPG organization on a timely basis, it is impossible to implement course correction for the running promotion even if it is failing on the ground. PoS data can clearly indicate whether promotions are creating the required engagement and whether any specific product categories are not receiving responses from

consumers. Thus, it is imperative that all available real time field data is shared with the CPG company for effective planning and execution of trade promotions.

## **Streamlining execution and feedback**

From budgeting to post-promotion analysis, trade promotion management is a multi-step process. While every step of this process is important, execution is the most critical stage. Many well-planned promotions fail due to poor execution in retail stores.

Non-compliance is the primary reason for the failure of promotion in the execution stage. Non-compliance relates to branding guidelines, inventory audits, display checks, positioning of products, discount accuracy, and placement of competitive products. Compliance is usually the responsibility of field sales representatives and does not receive due focus during execution. Out-of-stock during sale is another major reason for promotion failure, followed by display and branding compliance issues. These situations can be avoided with the right focus and attention to these topics. Most of the compliance-related processes in store are executed manually. Automation in retail execution is the need of the hour.

Organizations rarely seek feedback after running their promotions. While field data is used for post-promotion analysis, collecting feedback from the end consumer is virtually unknown. Promotions are executed for the end consumer who knows about the real appeal of any promotion activity. A direct feedback mechanism bringing in the voice of the customer is required. This should be the most weighted input for designing future promotional activities.

## **DUTI – The Framework for Success**

### **Differentiated value**

What is the primary reason for running a promotion? If there were less competition in the market, would companies still be running promotions for end consumers? Are promotions the only way to become a market leader in any segment?

The reality is that market competition is the main driving force behind all promotions, but promotions alone cannot help a company in becoming a market leader. The differentiated value offered by a product is the real reason why an end consumer will be interested in a product.

Differentiated value is a result of the organization's focus on continuous R&D and innovation. Over time, there has been gradual shift of financial and human resources in organizations from R&D to promotional activities. With trade promotions becoming the second largest line item in the yearly financial statement, R&D has taken a back seat. Value selling has become far more important than the creation of differentiated value.

While marketing and trade promotion are important, it is more important to focus on value creation for end consumers. Consumer loyalty can only be achieved through differentiated value creation and value sharing. Successful promotion can help

generate the first sale, but it cannot build loyalty. Organizational funding must be balanced between R&D and promotional activities. For long-term survival, businesses must ensure that the culture of innovation is adopted, promoted, and supported across the entire organization.

### Unification

Collaboration across organizational verticals, especially sales and marketing, has been a key challenge to the success of trade promotion management activities. With different responsibilities and different focus areas, direct unification is not a possibility. Both departments must actively collaborate during the initial stages of planning to provide the desired inputs for promotion activities. Sales promotion activities must be supplemented with consumer behavior information from the marketing team to execute the right promotion for the right set of people. A combined organizational promotion calendar will ensure that the messaging and discounting mechanisms across channels are not in conflict with each other. Marketing and sales initiatives should support each other during execution to establish synergies across departments. Common branding guidelines will bring the necessary attention to products in stores and ensure compliance as well. Direct to consumer (D2C) promotions by the marketing team and trade promotion activities on retail channels should complement each other.

In recent times, businesses are adopting frameworks such as Revenue Growth Management (RGM) to support the soft integration of people across departments. RGM encompasses multiple initiatives focused on process, people, and platform levers. Pricing, trade promotion management and optimization, and product assortment are the key themes of RGM.

### Transformation

People, process, and technology are three dimensions of transformation in any organization. Let us analyze these three dimensions in relation to trade promotion activities.

**Process** – Trade promotions must be executed across multiple markets and multiple geographies. Though there might be business processes unique to specific markets or geographies, most processes across geographies and markets are similar. The percentage of similar processes varies across organizations but on an average about 80% of the overall processes will align across the organization. Business process harmonization should be carried out for promotion activities to identify and tap the synergies and optimization opportunities.

**Technology** – Trade promotion management starts with budget approval followed by promotion planning, execution, and settlement, and it ends with post-promotion analysis. Basic automation exists in the initial stages of the promotion management process, but later stages are managed manually. Consider the claim settlement process. The average number of days to settle a claim raised by a retailer is between 60-120 days for most organizations. The retailer would have already invested money on promotions but is forced to wait for months to get



the reimbursements. During the promotion execution process, course correction possibilities are limited because there is no field level data automation. Display as well as POS data reaches organizations late and by the time issues with promotion are recognized, the promotion is over. It is imperative to use the right technology platforms and transform the largely manual processes of trade promotion. The transformation should integrate new technologies such as social, mobile, AI, cloud, and IoT to streamline the trade promotion management process.

**People** – Changing human behavior is often a greater challenge than transforming processes and technologies. People are the most important asset of an organization. Any change in processes or technology requires changes in the roles, responsibilities, and the ways of working for people associated with the entire process. Challenges in the change management process will directly impact the adoption of new processes and systems. Leaders must engage early with the employees and provide clear explanation about the additional value expected with the process and technology changes. This should also be supported with the required training and guidance throughout the initial stages of change implementation and the confidence of support for any issues later.



## Insights

Has the organization achieved the expected KPIs from promotion investments? What are the reasons for promotion failure? Is it possible to predict the success of the promotion being planned? Is it possible for the new technology system deployed to prescribe the kind of promotion which should be planned and executed?

Such questions indicate the high level of uncertainty around the trade promotion management process. There has been a gradual shift in the way historical data is viewed. Previously organizations had challenges with storing and managing the data, but now the challenge is to convert that data into insightful information. In the past, the collection and storage of structured data in operational silos was the preferred approach. Now organizations understand the importance of unstructured data and the value in connecting and collating all organizational data to derive actionable insights.

Data is the real asset in any organization but raw data cannot be consumed in a meaningful way. Processing the collected data and converting it into actionable insights is critical. The organizational data maturity journey involves moving from basic reporting capabilities to predictive and then prescriptive insights driving the entire trade promotion management process. The ROI for trade promotion activities is the most difficult metric to calculate. With changes in data processing and conversion approaches, businesses should work towards calculating the ROI for each campaign and promotional activity. Further, they must extract actionable predictive and prescriptive insights from each trade promotion activity.

## Conclusion

CPG companies spend over US \$1 trillion annually on trade promotions, but the yearly financial statements of most companies indicate healthy overall gross margins. Despite spending heavily on multiple price reduction and brand building activities, many such companies are reasonably profitable. A few large companies suffer losses not because of trade promotion spending but because of other factors including their value proposition.

Consider a situation where there are no promotions and sales are driven by the differentiated value provided by the product and the consumer's uninfluenced choice. In such a scenario, US \$1 trillion is available for utilization by CPG companies and their retail channel partners to benefit the consumer. The unutilized funds can increase the profitability of the companies and retail channel partners and help reduce prices for consumers.

Who is the real beneficiary of the trade promotion management process – the company, channel partner, consumer, or someone else? In reality, there is no clear winner emerging from trade promotions. Companies may achieve market leadership in certain product categories while sacrificing higher profitability and funding for differentiated value creation. And while some consumers could benefit from promotional activities, many others who normally buy during non-promotion periods end up missing



out on the short-term cost advantage and benefits.

While trade promotions are here to stay, enterprises must strike a healthy balance between the drivers of trade promotion and the opportunity to directly pass on price reduction benefits to consumers. To succeed on this path, they must focus on automation opportunities in promotion management while simultaneously exploring the possibility of greater value creation for consumers.

A question companies must ask themselves before embarking on any trade promotion is: who really pays the bill? Even as they invest heavily in such activities, in reality it is the consumer who finally picks up the tab for promotional offers like buy-one-get-one (BOGO), discounts, or coupons. Hence the focus must be on truly serving the customer, and building loyalty. Else every promotional incentive will become an unwitting gift for the consumer, by the consumer.

## About the Author



Deepak Thukral is Principal Consultant with Infosys and has over 22 years of experience in the IT Industry. He ensures value delivery to enterprises through transformative consulting and development as well as effective service management initiatives. Deepak is with the Infosys Salesforce practice and leads consulting and presales assignments in digital transformation, banking, retail, CRM, Internet of Things (IoT), and ecommerce for multiple clients. Heading large global development and service delivery teams, he has worked as a program manager in the banking, retail, and insurance sectors. Deepak is a certified Salesforce & Agile practitioner and has worked on various international assignments across all phases of software development, in offshore as well as onshore models with various roles and responsibilities.

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