Monitor
Deloitte.

Trade promotion optimization – shining light into the darkness

How advanced analytics enables CPG companies to finally get trade promotions right

Leverage new technologies and analytics to optimize the impact of trade promotions on sales and profitability

Introduction

Sales strategies are becoming more customer-centric, and online sales channels are reporting significant growth, yet many consumer goods manufacturers continue to use traditional trade promotions as an important tool to promote their products and boost sales in physical and online retail. Despite the advances in digitalization across all sales channels, trade promotions remain somewhat of a "black box" – most consumer goods companies are not entirely certain if they are truly effective. And despite the fact that we still lack transparency regarding their concrete impact on sales and profitability, trade promotions represent an important cost factor.

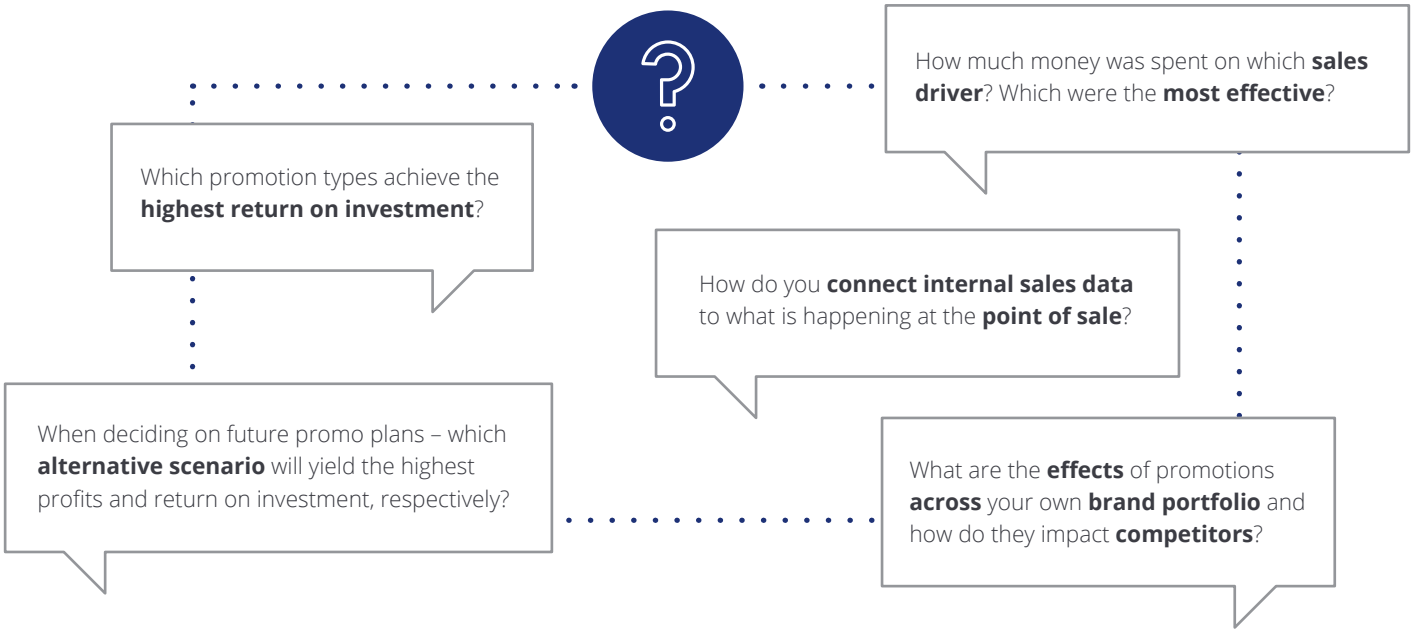
If your organization is unable to answer these questions, there are two things you need to know. Firstly, you are not alone – most consumer goods players struggle to find data-driven answers to these questions. And secondly, this study is definitely worth your time.

There are two key reasons companies can't answer these questions with any clarity: limited transparency and a lack of processes and analytical capabilities to actively manage the trade promotion's end result.

Monitor Deloitte surveyed leading global consumer goods companies to assess the status quo in the German market and gain insight into opportunities for improvement as well as best practices. This study provides an overview of the benchmarking results and presents a holistic framework and approach that will enable manufacturers to finally get their trade promotions right.

Now that we can solve a lot of the problems around trade promotions with new technologies and analytical methods, this study starts where others left off. Conventional analyses look at the reduction in overall trade spend and the strategic approach to budget allocation, but they fail to focus on how brands execute trade promotions or optimize spending by leveraging advanced analytics and machine learning.

Fig. 1 – Key questions to maximize the impact of your promotional spend



Why actively managing trade promotions matters more than ever

Numerous changes in consumer behavior and the retail landscape have put pressure on CPG companies, demonstrating how power is shifting from CPG companies towards consumers and retailers.

Shift one
Consumers have gained more power and ventured off the traditional linear path to purchase. They use multiple channels during their customer journey, in which brand loyalty is waning and price is becoming more critical as a decision criterion. The increase in price transparency that comes with more widespread digitalization, e.g., online availability of prices, enables consumers to compare prices more easily. From a manufacturer's perspective, this means that that there is more uncertainty about consumer spending for branded products.

Shift two
Retailers are increasingly focusing on private label products, trying to increase their power at the bargaining table with well-known brands. Retailers are also adding more exclusive products to their shelves and changing the product range more frequently to differentiate from other retailers. Add to this the varying input prices, and producers are under more pressure to grow their margins, win in the price war for consumers and get their products on the shelf.

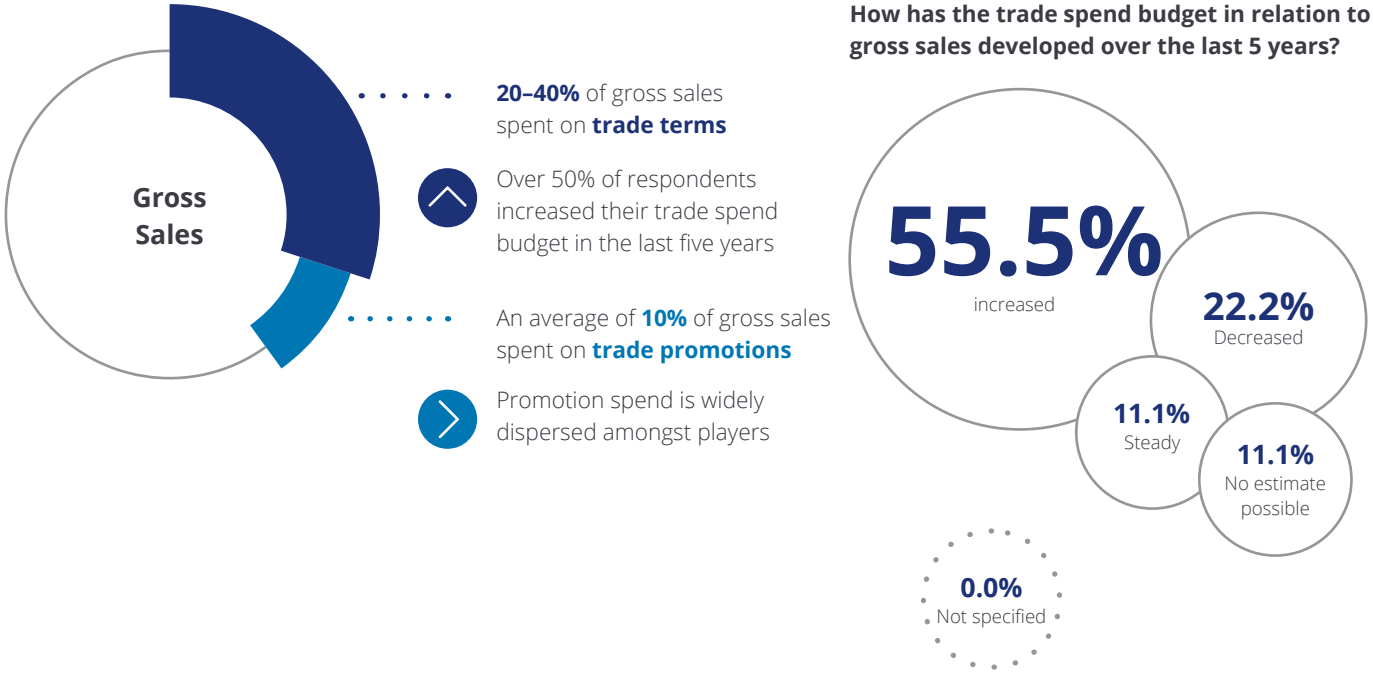
Shift three
Retail formats are changing. New channels such as convenience formats, gas station forecourts and e-commerce make it even more critical for manufacturers to manage their promotions – though that mission becomes increasingly complex as channels become more diverse. Retail formats are also getting smaller across all channels, which leads to tough competition for shelf space between CPG companies.

While the pressure on CPGs is indeed increasing, we see huge untapped potential in trade promotions that create a true win-win situation for manufacturers and retailers alike. Analytics help CPGs gain new insights that make it easier to shape their offering around promotion designs that benefit both parties equally and further enhance their partnership.

Driven by market developments, CPGs are increasing their overall trade and promotion spend to attract consumers and win over competition.
In fact, most of the companies we surveyed spend 20 to 40 percent of their gross sales on trade terms. Over 50 percent of respondents say they have even increased their trade spend in the last five years.

A significant driver of that increase is the large share of promotional spend. The companies in our survey spend an average of 7–10 percent of their gross sales on trade promotions, a figure that has also increased in recent years for more than 40 percent of survey participants. That said, the spend is widely dispersed among current players.

Fig. 2 – Percentage of annual gross sales spend on trade terms overall and trade promotions specifically

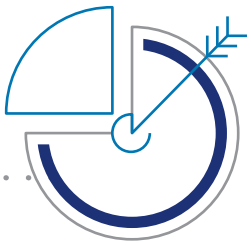


The companies in our survey spend an average of 7–10 percent of their gross sales on trade promotions.

Trade promotions play a significant role in driving sales volumes for consumer goods companies, but few are currently managed in a professional manner.

Even though a majority of revenues is spent on promotions, many CPG companies do so as part of a highly complex and often non-transparent process. We identified the following complexity drivers in the expert interviews conducted during our study.

Fig. 4 – Reasons for increased complexity in promotion management



1 **Increasing competition**
Increasing brand assortments and promotional pressure from competitors

2 **Consumer**
Fragmented consumers demanding best prices, granular assortment, and personalized offers

3 **Retailers**
Differing sell-in and sell-out information for selected retailers and different compensation models, trade terms and agreements

4 **Strategy**
Inconsistent alignment of category and brand strategy, business rules and promotion guidelines

5 **Agreement structures**
Non-binding and varying agreement structures adding complexity to trade promotion relationships with retailers

Another reason promotion management is so complex in the German market is the way CPG brands structure their agreements with retailers. Compared to other European countries, most consumer product manufacturers in Germany meet for negotiations with major retailers on an annual basis and negotiate an overall budget for the promotions in a given year. This often makes things more complex, as the annual spend is not offered or recorded based on a single event, but rather as part of an annual bundle used to secure a high-level promotion schedule. Since they are unable to assign investments to individual promotions and determine the actual ROI in each case, this remains a key challenge for the German market.

The chief sales officers of international CPG companies agree: "If you can make it in Germany with a particular methodology or system, you can make it anywhere."

Trade promotions in theory

CPG companies need to respond to the dynamics of the changing market and its inherent complexity. A typical trade promotion management process involves three main steps: developing a guideline, building a plan and activating promotions.

I – Develop the guidelines
CPG companies typically create and establish guidelines to operate promotions in the retail environment. These are translated into playbooks, funding guidelines and budget structures that can be used for planning and executing promotions. For optimum results, these guidelines should be embedded in tools and updated on a regular basis by senior management. Today's guidelines are more often presented in playbooks rather than the traditional spreadsheet-based approach.

II – Build the plan
Considering budget constraints and promotion guidelines, CPGs build a multilevel spend and volume plan for promotions. All of the key stakeholders involved, including marketing, sales, revenue management and supply chain, work across functions to build the plan based on clearly defined governance and responsibility guidelines for the planning process.

III – Activate promotions
In the third step, the sales teams execute the marketing campaigns and promotional events in several phases ranging from enabling activation to monitoring and adjusting trade promotions based on their performance. All new insights gathered at this stage flow into updates of the overall guidelines and optimized plans for the next iteration.

Enabling trade promotion management
Sales teams need to consider four key aspects in order to get trade promotion management right and successfully turn the theory into practice:

1. Performance culture and enablement
2. Organizational set-up and processes
3. Data availability and integration
4. Toolset and analytics capabilities

Fig. 5 – Trade promotion management framework

- Establish a guideline for promotions capturing funding guidelines and budget structures that can be used to plan and execute promotions
- Build a multilevel spend and volume plan for the promotion taking budget constraints and promotion guidelines into account
- Enable activation by monitoring and adjusting trade promotions based on their performance. All new insights gathered at this stage flow into updates of the overall guidelines for the next iteration
- Transform theory into practice by embedding trade promotion management tools in your organization, processes and systems

Scope of this study

Based on the trade promotion management framework above, our study looks at the status quo for major German CPG companies. This study focuses mainly on short-term promotions for consumer goods; in other words, the retailer-specific spend manufacturers invest in in-store promotions over a defined period of time.

Specifically, we asked manufacturers to participate in an online survey evaluating the company's maturity in each of the promotion steps. A number of expert interviews were conducted subsequently to support our survey findings and provide deep insight into the key underlying issues.

This study ultimately offers one possible approach to establishing a trade promotion management framework, with the aim of making your promotional spending more transparent and optimizing the return of your promotional events.

Status quo of trade promotions – Identifying key issues

Based on the framework we have outlined, our study looks at the maturity of German CPG companies with regard to trade promotion management.

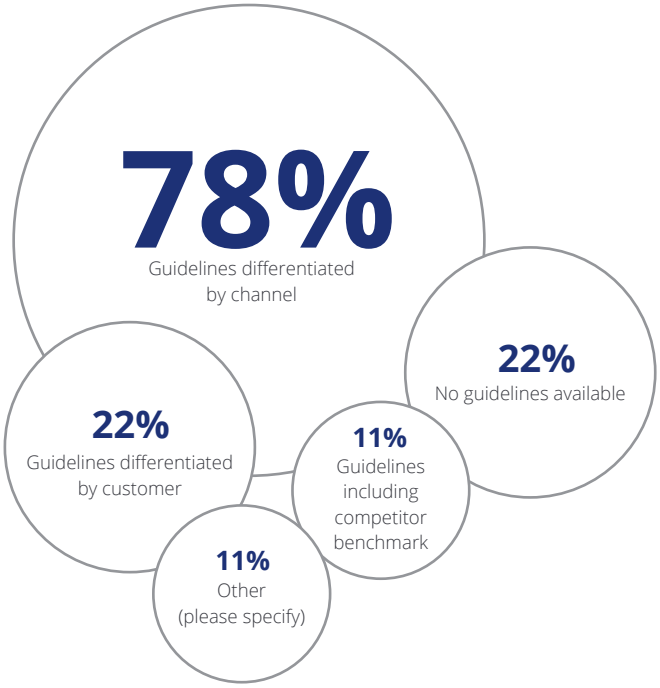
1

Develop the guidelines: Inconsistent implementation

More and more companies are using playbooks instead of spreadsheets for promotion guidelines, but they are not consistent in the way they implement them. Too often, they see playbooks as a one-off initiative and rarely use or update them. Successful promotion playbooks will illustrate how to drive success at the point of sale and companies should incentivize employees to use them.

Fig. 6 – Sophistication of trade promotion guidelines

Sophistication of guidelines



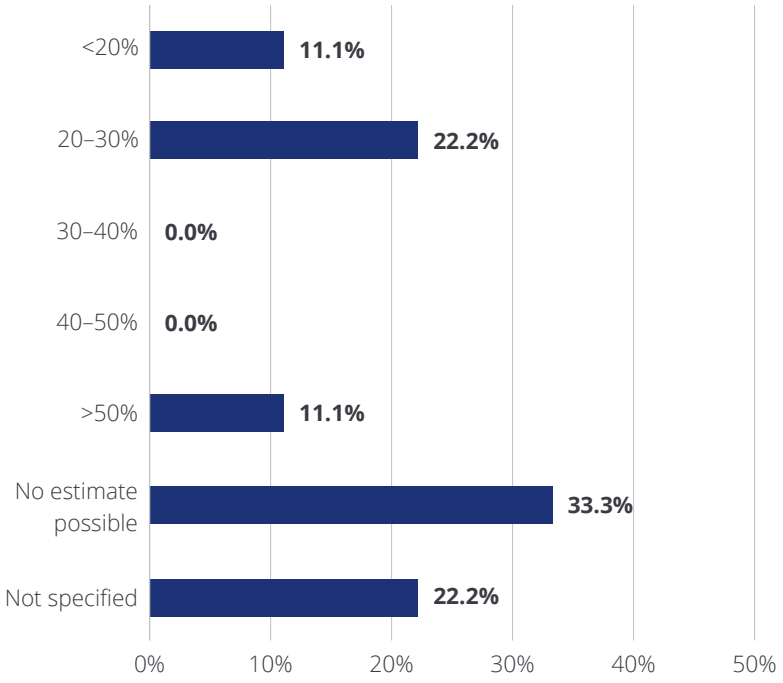
In theory, playbooks prioritize promotion spending based on point-of-sales performance. Based on the findings of our study, however, companies only pay out a small share based on sell-out.
Even though more and more promotions are recently linking payment to sell-out success, still only 20 percent of promotions follow this strategy. There is a large discrepancy between players in this context: certain brands use sell-out terms for almost all their promotions while others haven't even considered sell-out-based payments or do not have the needed transparency to determine which promotions are actually linked to sell-out performance. That said, 30 percent do indicate that the share of payments based on sell-out success has recently increased.

20-30%

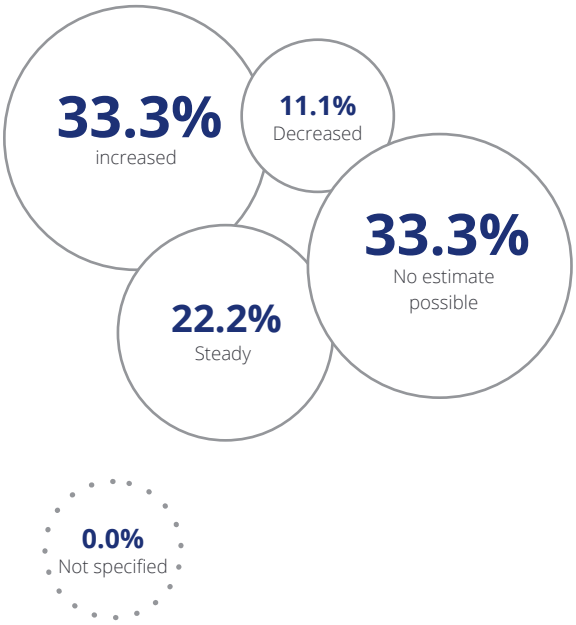
of promotion event payouts are based on sell-out

Fig. 7 – Linking trade promotion spending to sell-out success at the point-of-sale

For how many percent of the promotions is the payout linked to the sell-out success?



How has the proportion of promotions with a sell-out success component changed over the last 5 years?



More than 40 percent of our survey participants report that at least 20 percent of their promotion events are designed specifically for the online channel, in line with market trends. This shows just how important it is to have dedicated guidelines for the online channel in both your playbooks and your management strategy.

2

Build the plan: Lack of transparency

The way companies execute planning processes and allocate spend to specific customers or events has evolved over time and is therefore difficult to change. A lack of transparency exacerbates this change-averse behavior, as most companies are unaware if their promotions have actually been successful and, if so, which ones specifically.

Even as companies increase investments on trade promotions, transparency on the success of specific promotions remains very limited among consumer goods manufacturers. 30 percent of respondents indicate that less than a third of promotion events have transparent data detailing the terms of promotion mechanics and features. Only a few leading consumer goods players say that they document transparent results for roughly half of their promotions.

This lack of transparency prohibits CPG companies from effectively allocating budget to profitable promotions.

In principle, companies should rely on a comparison of forecast data and actual results to allocate and adjust spending. 30 percent of our respondents do not, however, have any processes in place to compare forecasts with actual results. And even though 60 percent of the companies surveyed are comparing results with forecasts (based on volume or ROI), they don't have the analytical tools they need to generate valuable insights on why certain promotions succeed or fail. Companies leading the industry benchmark use sensitivity analysis to identify what is driving success in a promotion in addition to comparisons of forecast vs. results based on ROI.

Fig. 8 – Promotions in the online sales channel

What percentage of promo campaigns are set up specifically for online trading?

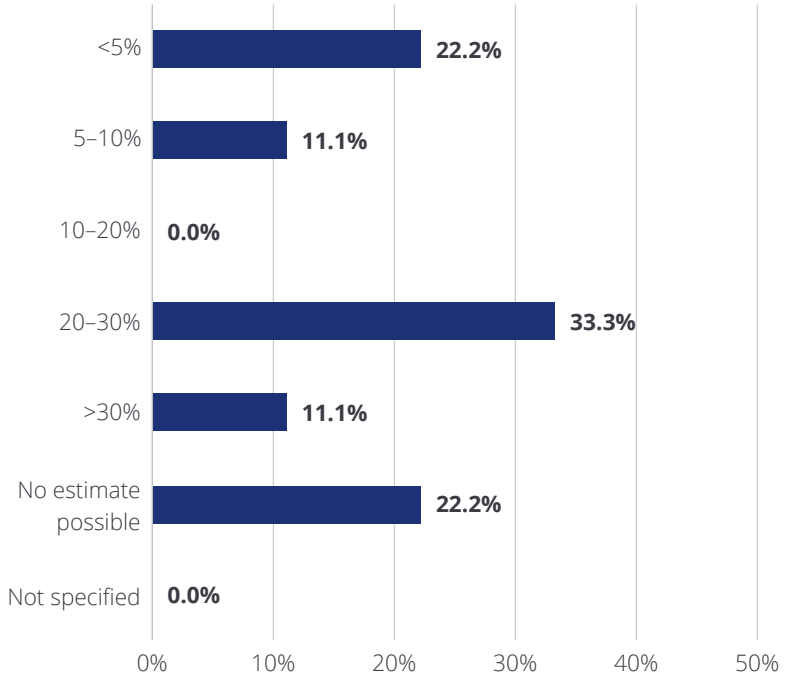
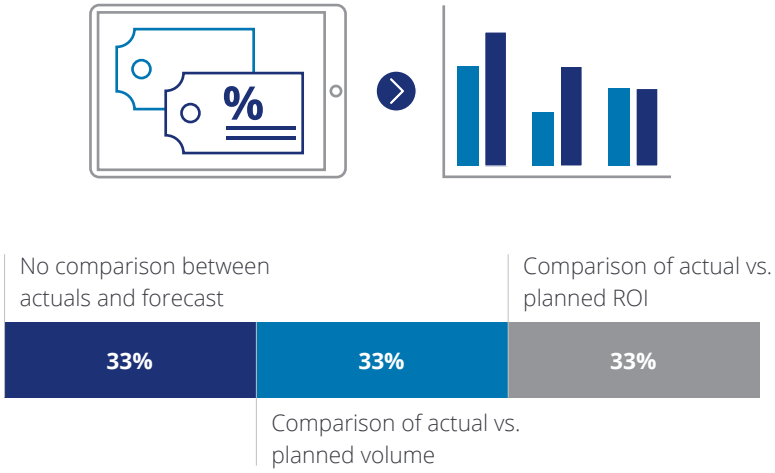


Fig. 9 – Sophistication of forecasting (% of respondents)



3

Activate promotions: Volume-focused metrics

According to our respondents, success is often measured with a strong focus on volume, whereas only one-third of the companies surveyed used profitability based on ROI as a key metric.

In addition, most players that measure ROI fail to incorporate additional factors into their ROI calculations. For instance, 40 percent of our respondents have the data to calculate cannibalization effects, but only 10 percent factor in retailer forward buying and 20 percent reflect the impact of seasonality.

Fig. 10 – Most common KPIs to measure success

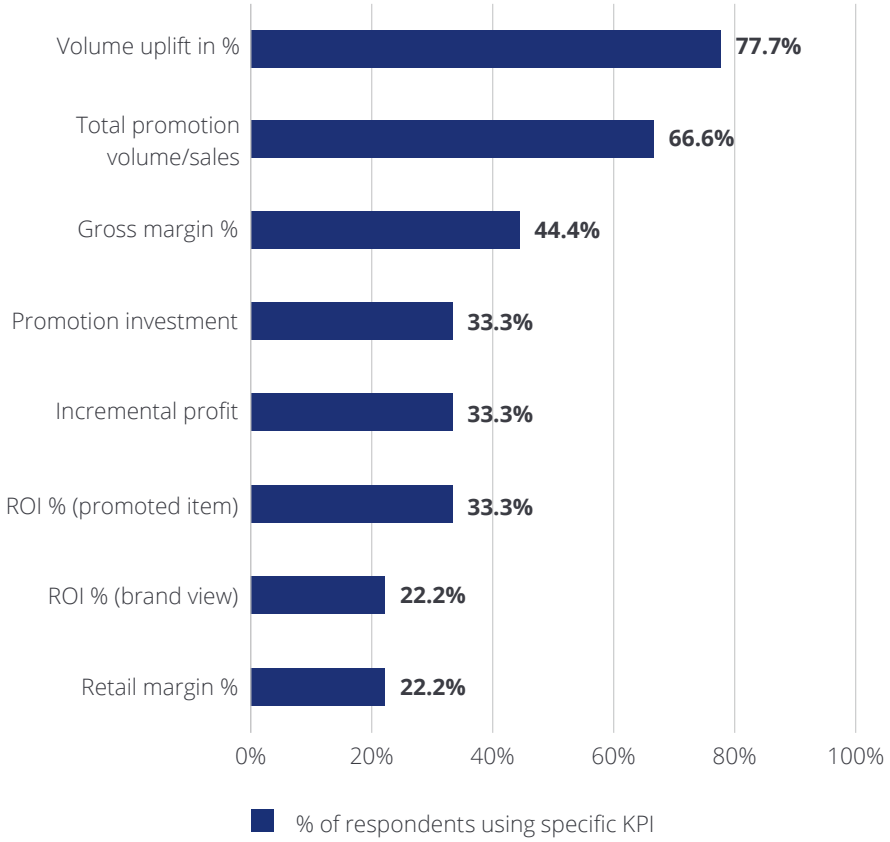
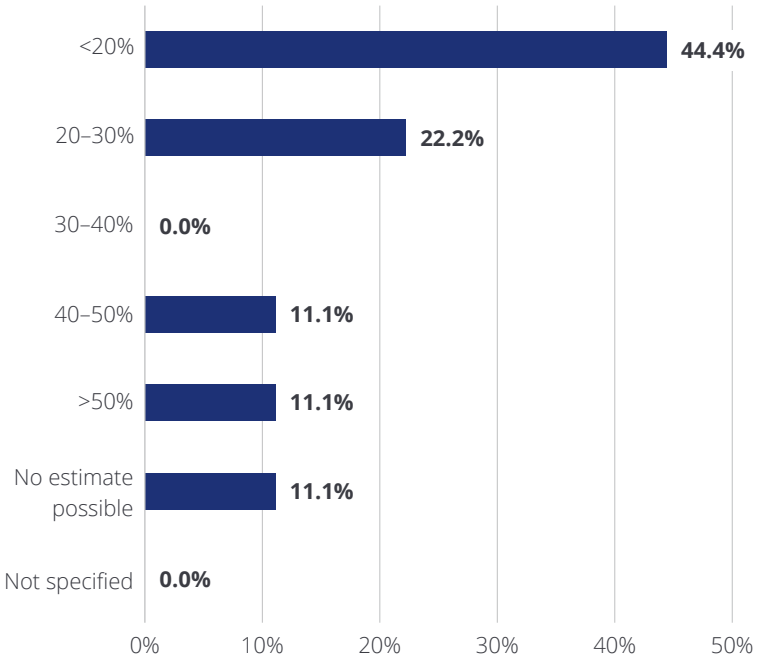
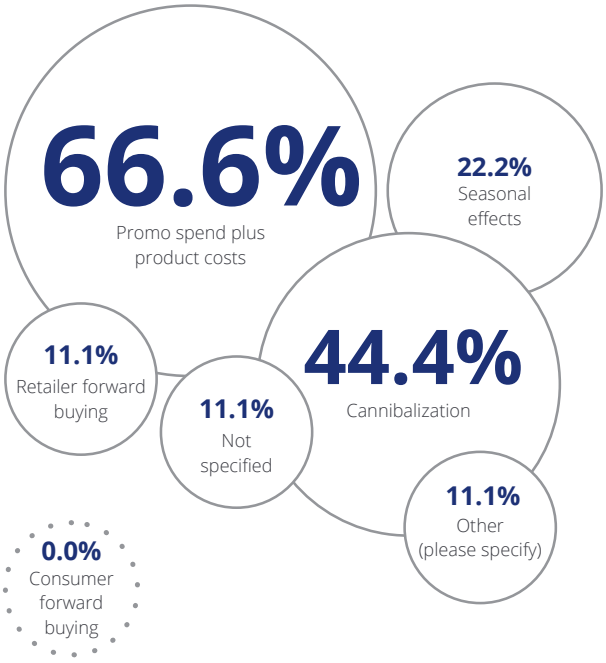


Fig. 11 – Measuring return on investment for trade promotions

For what proportion of promotions is success measured by the Return on Investment (ROI)?



Which factors are taken into account in the ROI calculation? (multiple answers possible)



Enabling trade promotion management: Digital update needed

Fig. 12 – Key findings about trade promotion management at a glance

Culture and enablement
We need to see organizational mindset and performance culture as essential prerequisites for successful promotion management. This mindset should not only promote more efficient promotion management internally, but also steer external relationships in the right direction. Most CPG companies focus on their own mission in trade promotions and neglect the retailer's point of view, which often makes partnerships inefficient and mutually counterproductive instead of win-win situations.

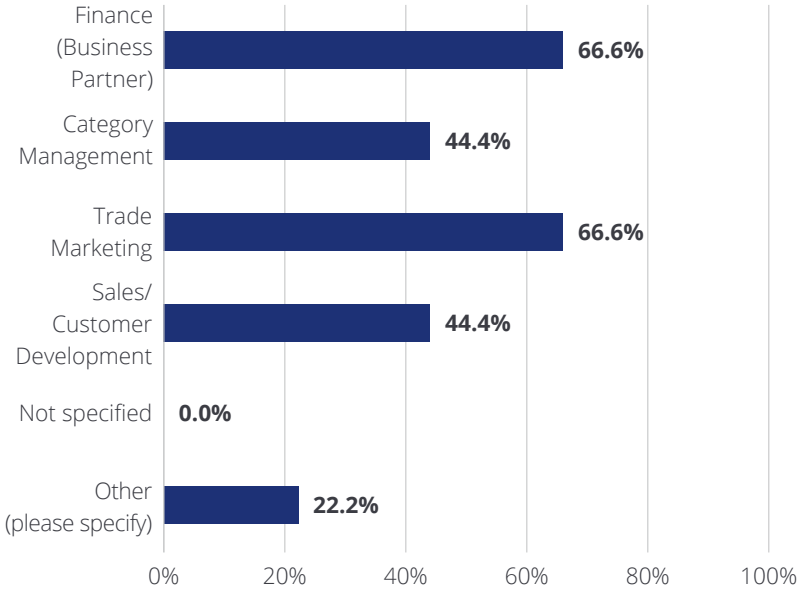
Organization and processes
Staff responsible for managing promotions often work in different units of an organization, e.g., category management, customer development, trade marketing and finance. Among our respondents, 60 percent say they involve finance and trade marketing, while 40 percent also include category management and sales in the process. If you incorporate different departments into a single process without establishing empowered ownership, you can end up with silo-driven behavior, knowledge loss and inefficient management.

Only 20 percent of respondents link promotion goals with their employee incentive schemes.

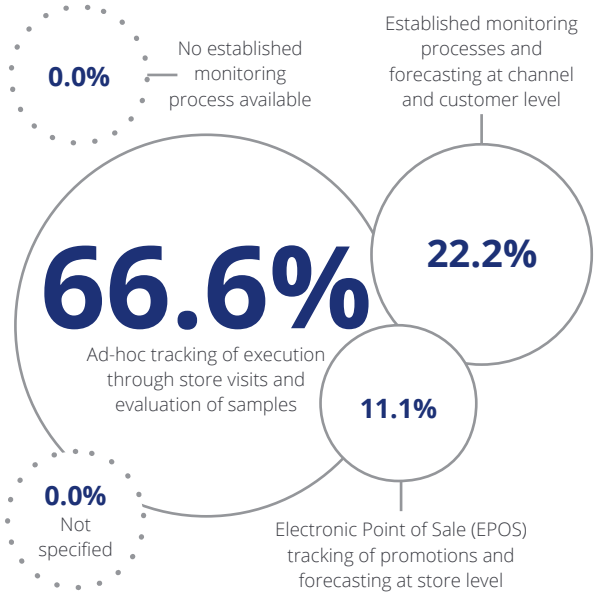
One area where almost all of the CPG companies in our survey could do better is in the way they track the lifecycle of a promotion. Two-thirds rely on ad-hoc salesforce visits to verify that promotions are actually being carried out at the point-of-sale and to evaluate corresponding samples – leaving a lot of room for improvement. Only a few of the leading players in our survey have an innovative and effective method of tracking performance with electronic point-of-sale (EPoS) data in order to verify that promotions are proceeding according to the agreed schedules and pricing mechanisms.

Fig. 13 – Set-up of budget allocation, performance measurement and execution tracking

Which departments are involved in the planning, budget allocation and performance measurement of promotions? (multiple answers possible)



How detailed is the implementation tracked?



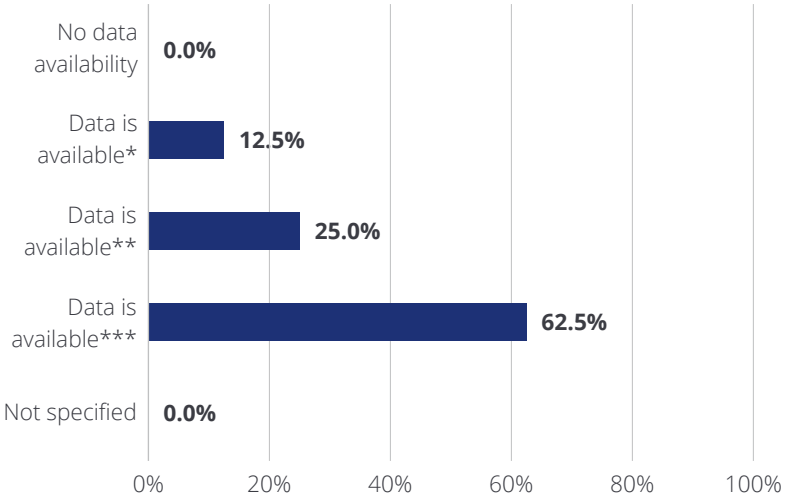
Data availability and integration of third-party data

The availability and visibility of data provide the foundation for all subsequent analytics. Most companies are satisfied with the data that is available at customer level and are in a position to analyze this data for individual promotion events. By contrast, a minority of our respondents only has data aggregated at the channel level and is therefore unable to analyze data based on specific customers and promotions.

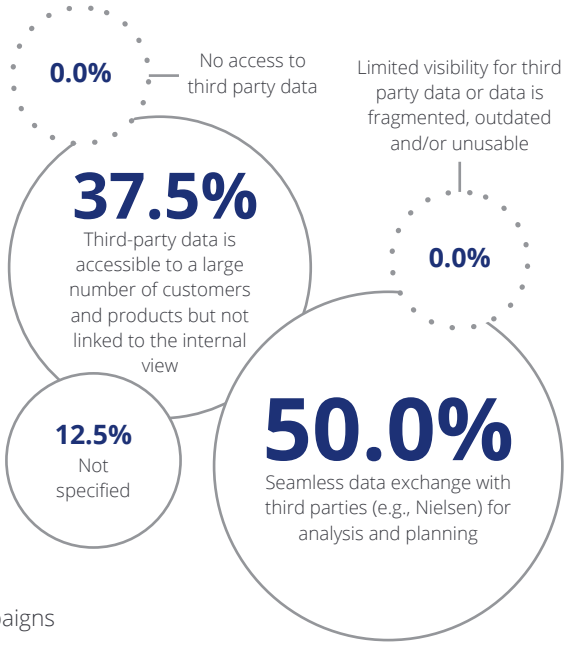
In order to improve transparency and build the capabilities companies need to measure the success of trade promotions, it is vital to integrate third-party data. While most of the companies we surveyed have access to third-party data, more than one third of them struggle with either the quality of the data or the ability to integrate them into their in-house systems. Roughly half of our respondents say they have implemented seamless data sharing and are therefore leading examples for others.

Fig. 14 – Trade promotion data availability and integration

At what level is sales and promotion data available and visible?



To what extent is data from third parties (sell-out) integrated?



* for each channel but cannot be displayed by customer or promotion
** for specific customers but cannot be displayed for individual promotions
*** on a customer-specific basis and can be displayed for individual promo campaigns

Use of analytic tools in daily business
None of the CPG players in our survey have achieved excellence in promotion tracking using an established monitoring process including forecasting on channels, at the customer as well as the store level using EPoS data tracking.

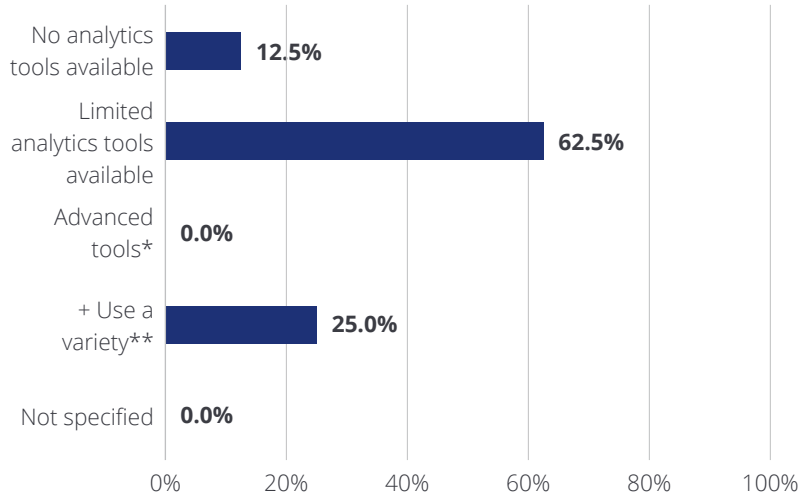
To leverage external and internal data and generate insights, analytics tools are indispensable. However, some of the CPG producers in our study are only at the start of their analytics journey – 12 percent of respondents do not use analytics tools, while a majority have only limited access to analytics tools to extract data insights.

Only a few of our respondents use automated advanced statistical analysis to gain insight into individual aspects of promotion performance. Other leading firms have managed to establish mandatory analytics tools and combine them with dynamic reporting to obtain a real-time analysis.

In terms of the promotion planning process, there are large gaps between the CPG companies in our survey. A few leading companies have set the benchmark, while the majority is still lagging behind. The leading 20 percent of the companies surveyed are extremely mature, already in a position to leverage best practice analytics tools and scenario planning to optimize trade promotion planning at the key account level. They have also established an automated interface to their finance and operations planning cycles. The vast majority, however, have a lot of potential for improvement in areas such as the link between account planning and the planning cycles for finance and operations or automated checks on compliance with promotional guidelines.

Fig. 15 – Analytics tools

To what extent are analytic tools already used in daily business?



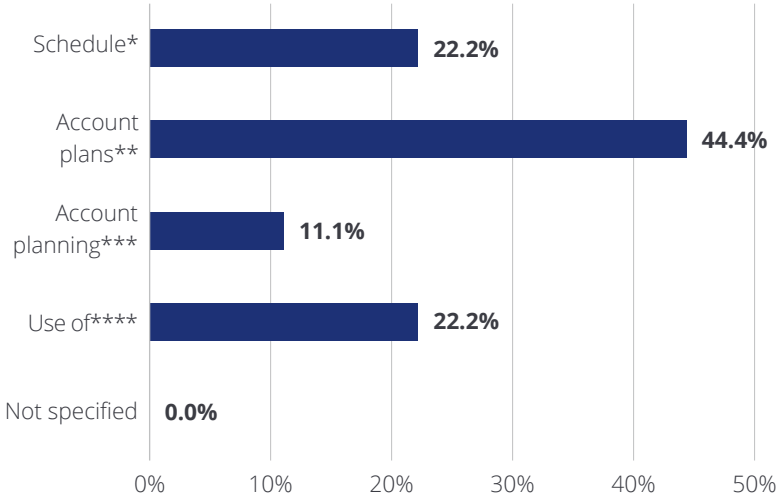
* with automated statistical analysis to understand the performance drivers of promotions
** of dynamic reports and interactive tools that enable real-time analysis

For some, there is significant room to improve at the operational level: 20 percent of the consumer goods companies in our survey conduct their promotion planning manually in Excel and have no customer-specific plans.

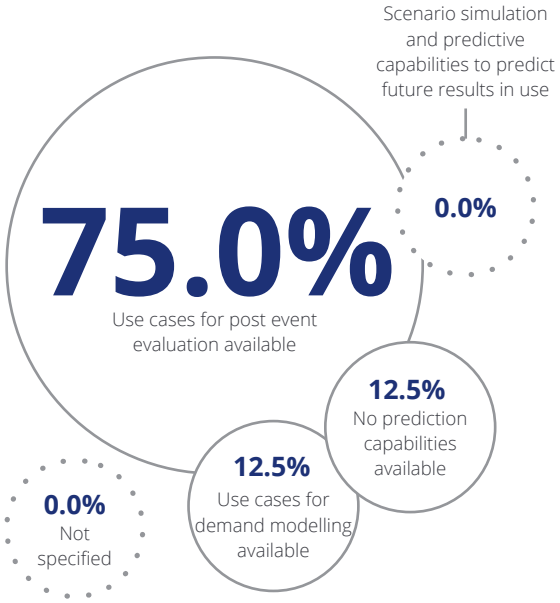
Forecasting is the supreme discipline when it comes to trade promotion optimization. Of our respondents, 75 percent have laid the foundation by building uses cases around post-event evaluations and 12 percent have already taken it one step further by implementing use cases for demand modelling. Best practice performance – with established scenario simulation and predictive forecasting capabilities – is scarce among the players surveyed.

Fig. 16 – Maturity of promotion planning and forecasting capabilities

How mature is the operative promo planning?



To what extent are learnings derived from previous promotions and the future development of promo spending predicted?



* in Excel without customer-specific plans
** that are aligned with the promotion strategy and guidelines
*** is tool-supported and integrated into the financial and operational planning cycles
**** analytics tools to optimize trade promotion and/or scenario planning

A state of the art trade promotion framework links promotion strategy to continuous execution tracking

Fixing trade promotions with advanced analytics

Linking trade promotion strategy to advanced analytics lays the foundation for executing trade promotions efficiently and effectively in the future.

Get the transparency to develop the guidelines and inform the plan

It is absolutely vital to have a comprehensive overview of existing promotions and transparent data on their processes and organization. CPGs must develop an analysis framework with relevant KPIs that enables them to generate standardized evaluations for each individual promotion. The first step in promotion planning should be to create a single repository of all promotions. And to achieve best practice, companies need to link the data on projections versus actuals, integrate plan data with customer and category teams, and align the data with financial and operations planning.

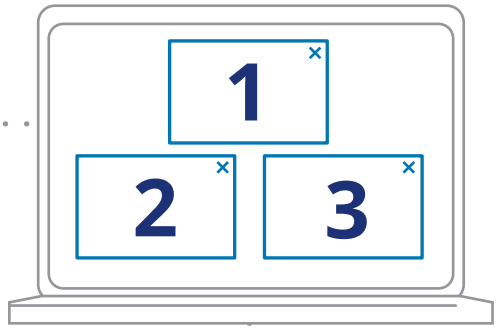
The budget should be used in a way that best supports the category's growth and profitability goals in alignment with the company's overall strategy. Different objectives (e.g., volume, profit or ROI) can be used to align optimization efforts for each promo in line with the category objective and strategic intent.

Fig. 17 – How to efficiently allocate your promotion spend

Promotion strategy
Develop a promotion strategy that includes defining a measurable and transparent approach to budget allocation by customer and create a spend playbook to budget spending at the customer level.

Promotion playbook
The playbook should be adjusted continuously once analytics are in place. It can be adjusted at the management level, but they need to inform the field in real-time to support localized decision-making that is optimized for ROI but does not comprise controls and strategic intent.

Promotion excellence
Excellence in trade promotion means linking strategy to execution. Monitoring, analysis and forecasting of promotions should inform the strategy and therefore inform the budget allocation for each customer.



Create the right mind set: Paradigm shift through the retailers' eyes

The first step for consumer goods manufacturers is to catch up with retailers in terms of success tracking, insight generation and action derivation of trade promotions. Secondly, manufacturers should seek to understand the retailers' pain points. They can then use these insights to consult with and support retailers in identifying which promotion mechanics work for which type of product, with the aim of creating a "win/win" story for both CPG manufacturers and retailers.

Today's CPG companies often have only sell-in information from the retailers without a clear understanding of how successful promotions have been with consumers (sell-out information) or whether retailers are using those promotions more for their own best interests (forward buying). It is vital to also factor in how retailers view these promotions so that they can gather convincing arguments for subsequent negotiations. The best-case scenario is to set up promotions on a partnership basis in a way that benefits both sides.

This is the only approach that results in a win-win situation that creates additional value for both retailers and CPG companies.

Implement the right organization and processes

As several departments are often involved, it is essential for promotion management teams to overcome organizational silos and establish a virtual data-driven hub that bundles all trade promotion-related activities (planning, tracking, execution). If they set up efficient processes and support profitability tracking and analysis with all relevant stakeholders from marketing and sales to revenue management involved, they will be better able to define governance and accountability for this process and align incentive schemes. The end goal of this organizational set-up should be to foster an end-to-end view on promotion management and help drive strategic and tactical decisions on promotions.

Fig. 18 – Best practice promotion management process

Fix the data
Aligning and standardizing master data structures will provide the foundation for trade promotion analysis and optimization. When steering structures are aligned across regions, countries, and business units, companies can attain a consistent and aggregated view of customers, product portfolio and trade spending at the global level.

Integrating external demand (e.g., POS data) allows companies to measure true promotion success at the point of sale. They must harmonize external data with internal data structures and build a shared data model in order to analyze the impact of trade promotions along the entire value chain.

Introduce scenario simulations and analytics
We can improve the impact of trade promotions by applying advanced analytics and predicting future results based on historical data. The goal is to achieve optimized promotional spending across the portfolio and the customer base with direct integration into planning. This allows us to better understand how seasonality, distribution and promotional levers drive sales. Optimizing how we design promotion programs and use post-event analysis to develop promotional guidelines is just as important as automatically prefilling the baseline for future periods to automate volume planning. Companies will thrive if they can harness scenario planning to simulate future promotions and identify the best parameters.

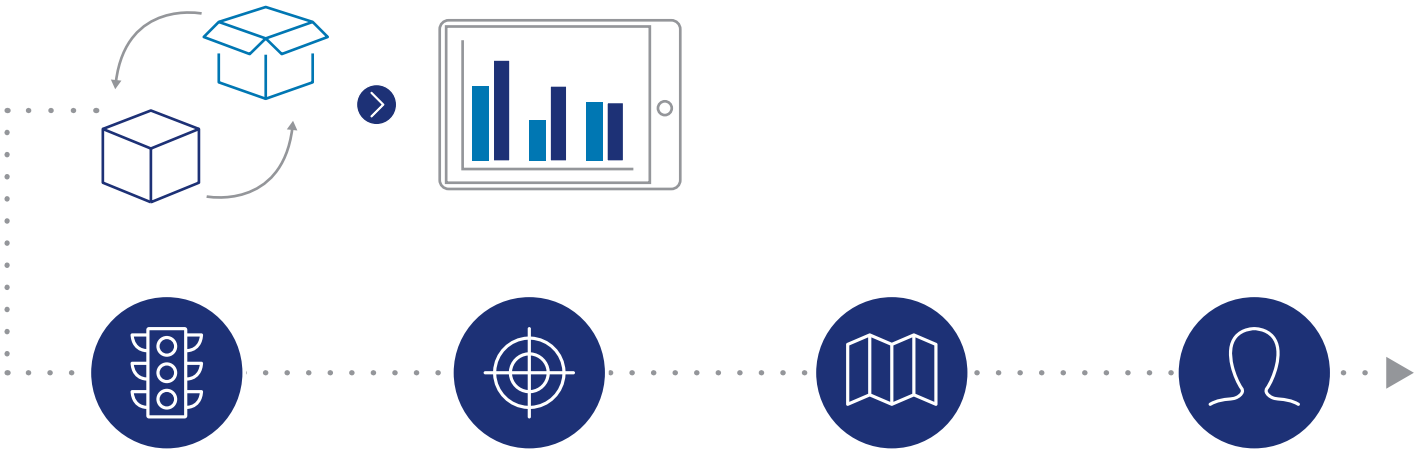
The key steps are: Start by understanding consumer demand based on historical data and then apply analytics to derive price elasticities and decompose total sales into base volumes, promotional lift and cannibalization effects across the brand portfolio. Automate your planning processes by implementing predictive forecasts of baseline sales and promotional uplift derived from the discount depth and promo features. Facilitate decision-making by simulating promotion scenarios to produce multiple forecasts with a range of inputs and find the "best" promotions. Enable "what if" analyses by simulating different scenarios that combine various promotions. Optimize the design of promotional programs based on data-driven insights and determine the optimal promotion to pursue based on your strategy and goals.

Get the right technology
Companies need a powerful analytics platform, and the right tools and systems. Of course, they could keep using spreadsheets, but that will prevent them from being able to scale or embed trade promotion evaluations and forecasting into their daily business processes. Building a flexible plug-and-play network of applications means you can flex for new technology; using methodology and analytics power allows you to forecast and optimize your individual promotions. These forecasts should take into account cannibalization effects and the net impact of promotions on your category financials. And, finally, when you embrace cognitive learning and AI, advances like algorithmic selling can drive promotional effectiveness.

Summary

CPG companies need to respond to the changes happening in consumer behavior and the market environment by digitalizing their promotion management processes and making data on their promotion success more transparent. Every day we see momentum building for technology and analytics capabilities that will enable CPGs to utilize promotion spend more efficiently.

Fig. 19 – How How to proceed after reading this study



Assess the status quo
Where do you stand compared to the results from this study? Can you relate to identified pain points?

Develop the vision
Where do you aim to go with your trade promotions?

Build the roadmap
How can you implement identified initiatives? What resources are needed to effectively change the status quo?

Assign responsibilities
Who is responsible to drive change and disrupt traditional non-transparent promotion spend?

Contacts

Thorsten Zierlein
Partner
Retail & Consumer Products
Tel: +49 (0)89 29036 7202
tzierlein@deloitte.de

Anna Krug
Senior Manager
Retail & Consumer Products
Tel: +49 (0)30 25468 5692
akrug@deloitte.de

Leon Naumann
Senior Consultant
Retail & Consumer Products
Tel: +49 (0)40 32080 4806
lnaumann@deloitte.de

Paulina Stuhlmacher
Consultant
Retail & Consumer Products
Tel: +49 (0)89 29036 7380
pstuhlmacher@deloitte.de

Monitor
Deloitte.

Issue 07/2020