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Growth Fuel
Rethinking trade spending in consumer products

Contents

Introduction

Ever noticed what happens to city sidewalks in a major snowstorm? Freed of the drawing-room logic of city planning, pedestrians start to carve out the paths that make the most sense when you want to get from point A to point B as efficiently as possible. Sometimes that means sticking to the sidewalk. But sometimes it means creating a new path that follows a different logic dictated by changing conditions. Aerial photos of city grids in the midst of such a big storm show more organic, curved patterns that show the choices people make in a changed landscape.

In a sense, CPG companies are just beginning to thaw out after the storm called the Great Recession. But this time, rather than returning to the same streets and sidewalks that dominated the landscape before, they're considering new approaches. Because this storm has significantly altered the landscape – especially when it comes to trade promotions. Over the past 36 months, aggressive, highly competitive promotion levels failed to result in volume lift, eroded manufacturer margins, and decreased the size of category profit pools.[1] Combined with persistently weak consumer spending and rising input costs, continuing down the same paths could be a recipe for disaster.

To find out just how CPG leaders view this new reality and what they're doing about it, we conducted in-depth, one-on-one interviews with leaders at 23 consumer product manufacturers with more than $100 billion in sales, asking questions about everything from investment and funding strategy to communications, insights and execution. In some cases we found what we expected. But there were also lots of surprises. Leaders in the CPG industry are asking themselves some tough questions these days. Here are some fresh insights on how they're answering them – direct from some of the most influential CPG companies in the world.

How should we be using trade to drive profitable growth?

Trade spending has traditionally been all about the numbers. Manufacturers compensated retailers for discounting prices and running special promotions in an effort to boost volume and grab market share.[2] The price-driven approach worked then, and it might still work today – for manufacturers and retailers alike. But consumer behaviors have changed, spurred on by economic pressures and advances in technology. And that's creating some interesting new challenges, particularly when it comes to pricing.

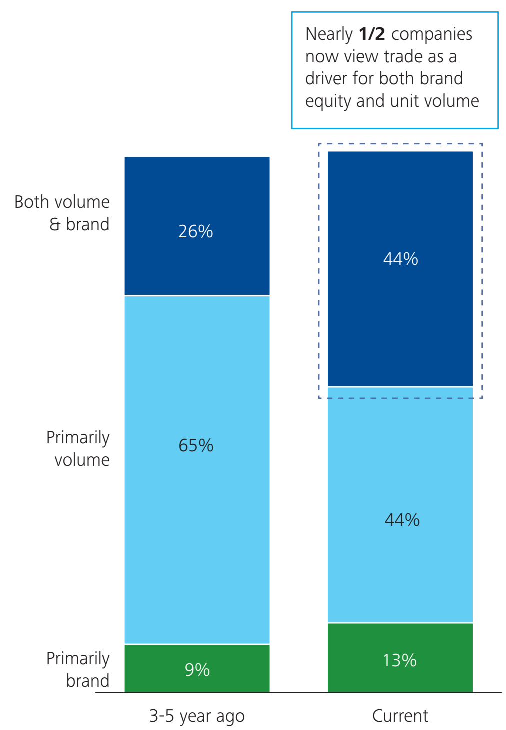
For starters, consumers are more aggressive in their pursuit of low prices, and armed with new social media tools and expanded online access to circulars and pricing, they're more informed. They're willing to wait for a price drop, and when it hits they're more likely to stock up. Price-based promotions will earn their business – but if you run too many, the discount price might become the default price in the minds of consumers. Retailers and manufacturers are both wary of falling into the pricing trap, and they're looking for new ways to work together on trade spending to expand the number and types of tools in their toolkits.

To get out of the price game, we're working on displays for key events and increasing our collaboration efforts with our most important retailers.

Survey respondent

Specifically, manufacturers and retailers are looking for ways to use trade spending to help build brand equity and healthy unit volume, in addition to the core goal of driving growth. As manufacturers direct trade spending into programs that enhance brand equity, they're uncovering opportunities that they may not have even considered previously. For instance, as retailers increase their investments in in-store TV monitors, manufacturers are starting to provide product-focused content to increase brand exposure.

To be sure, price-reducing promotions aren't going away. But manufacturers are clearly looking for ways to diversify and fine-tune their trade investments, with an eye to boosting brand awareness and healthy volume growth.



How can we make smarter bets with individual retail partners?

65% of companies indicated that they have differentiated levels of trade funding investments

That manufacturers haven't historically benefited from a sophisticated view into trade performance on a retailer-by-retailer basis is no secret. But that's starting to change, pushed along by big advances in analytics techniques and technologies. Even though a manufacturer may have different promotions in place with different retailers (as they invariably do), it's becoming easier for them to compare the value they're receiving from these investments. As a result, they're using trade to place bets that advance strategic objectives. Not just which events make the most sense to participate in, but which customers are most likely to deliver the desired results.[3]

Segmentation has a big role to play in this process. Today, leading CPG manufacturers are creating detailed profiles of their retail partners based on almost everything, from funding levels to sales figures and more. Using these profiles, they're able to set funding models that allocate trade spending to different partners based on predetermined criteria reflecting different strengths and attributes. These profiles should be refreshed and evaluated regularly – for example, the great recession has changed the role of the dollar-store channel, a high growth channel seen now as a grocery or mass channel substitute (see Deloitte's "Dollar store strategies for national brands" for more details).[4] CPG manufacturers that keep a pulse on their customer profiles are able to make smarter, more informed decisions about where and how they spend their money.

In our conversations, roughly 65% of companies indicated that they have differentiated levels of trade funding investments, informed by more advanced segmentation insights. These companies are making more strategic investments with retail partners that demonstrate stronger performance and greater growth potential. As one interviewee stated, "we put a lot of rigor into investment levels and segmentation by mapping out where our categories will grow, creating performance incentives, and concentrating investment in those growth areas." That can be a smarter alternative to the old ways of doing business, which were largely driven by relationships in the field and intuition rather than hard data.

What capabilities do we need to execute trade promotions with retailers more effectively?

Imagine that as a manufacturer, you've already worked to segment your retail customers and have correspondingly adjusted your investment strategies to provide a higher level of support. How do you align your organization to make sure you're executing on those strategies effectively in the long run? The answer changes significantly depending on the scenario. Here are some of the leading approaches we found in our discussions with manufacturers.

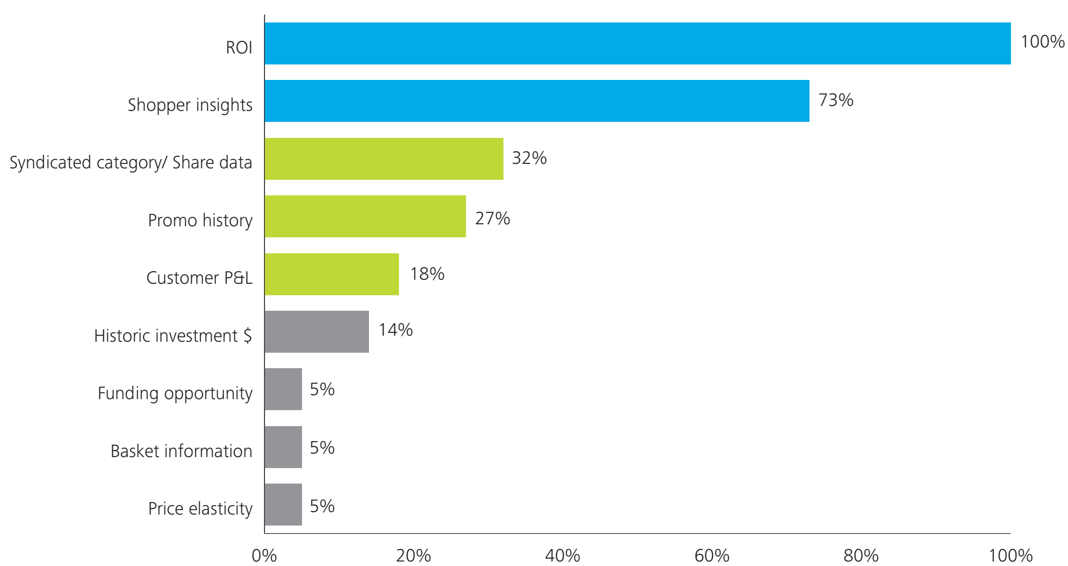
For starters, increased performance visibility helps open the door to more productive relationships between manufacturers and retailers. These relationships have typically been known for being opaque – retailers often don't know why manufacturers make certain trade spending decisions. While it's unlikely that manufacturers will ever share all the criteria that shape their funding allocation models, new analytics tools make it easier for them to deliver focused feedback on trade programs and performance to their retail counterparts.

Along the same lines, retailers are hungry for the insights that manufacturers develop as a central part of their strategy, and analytics can play a role there as well.[5] Using analytics-generated insights on everything from consumer behavior to market dynamics, retailers and manufacturers can make smarter decisions about strategy, product packaging, and a lot more – not just at the national level, but tailored to a retailer's unique consumer base. In strategic relationships, manufacturers are exploring new ways like these to deliver a steady stream of consumer insights to their retail partners. Some are even assigning dedicated research staff to the account team to facilitate the codevelopment of insights.

Sales force design is also playing a role in manufacturers' work with retailers. Many have streamlined and aligned their sales teams to deliver a more targeted experience for retail partners, avoiding common experiences such as having multiple people call on the same retailer.

Insights used in trade communication

Percentage of companies using insights in communications with customers



What a leading retail trade strategy looks like

No CPG manufacturer is the same. But when it comes to trade strategy, there are far more similarities among leaders than differences. And in our work with a range of CPG manufacturers, we've observed a few areas in which the leaders are typically united.

For starters, they tend to have deep capabilities in the area of channel and customer investments, which of course includes trade strategy but also extends into less expected territory such as supply chain design and brand strategy. Leaders in trade strategy are also masters of pricing and margin management – not just in promotion spend and effectiveness of trade terms, but in overall price setting and even logistics efficiency and commodity management.

What's an effective way to collaborate with retail customers? Leaders know that without strong joint strategic planning capabilities in place, the best strategy in the world will likely fail. So they do things like invest in developing shopper insights to bring more value to their retail partners. Collaboration isn't just a feature of their trade strategy – it's a foundation.

Industry-leading trade strategy is paid off by excellence in both planning and execution. Whether conducting demand and inventory planning with the supply chain team to determine that retail customers have the correct goods at the correct time, or focusing on the nitty-gritty details of in-store operations and campaign details, leaders aren't content to assume that someone else is handling execution.

If that sounds like a lot, well, it is. But you don't have to have leading capabilities in all of these areas tomorrow. All it takes is a clear vision of the end goal and the determination to make it happen, one piece at a time. Plus, it's not really optional. Manufacturers are already ramping up the next phase of their trade promotions strategy today, using many of the ideas and approaches outlined in this article. If you're not on that train, don't be surprised if it passes you by.

Endnotes

[1] Deloitte Consumer Products Trade Strategy Survey

[2] Deloitte Consumer Products Trade Strategy Survey

[3] Deloitte Consumer Products Trade Strategy Survey

[4] http://www.deloitte.com/view/en_US/us/Industries/consumer-products/37dfbef431ef9310VgnVCM2000003356f70aRCRD.htm

[5] Deloitte Consumer Products Trade Strategy Survey

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