Driving profitable growth in the new era of commercial spend
Where and how to invest in an unscripted path to purchase
The clash of new consumer expectations and outdated business models

Alicia lives near the newest store of one of your consumer products (CP) company’s biggest customers. She stops frequently for one-off purchases of your high-protein foods and drinks. Today, Alicia is headed to a music festival sponsored by your company. The concert reminder includes a voucher for two free drinks at the festival if she subscribes to your rewards program and a “stock up and save” digital coupon for Alicia to use at her local store. If she follows your company on social media, Alicia can also get a discount on a future ticket purchase. By the end of the day, Alicia has bought a “picnic pack” of your bars, is sipping your newest drink with friends, and now follows you on Instagram.

Unfortunately, most CP companies lack the insights and decision infrastructure to deliver consistent personalized promotional experiences like this one for their consumers. National in-store programs are typically planned months in advance and often lack the flexibility to accommodate targeted or personalized offers.

The Alicia scenario is clearly a missed opportunity. And it happens every day in the CP commercial spend arena where trade, marketing, and shopper dollars converge. The time is right—some would say overdue—for CP companies to reengineer how they use commercial spend to drive consumer engagement, build brand equity, and boost sales conversion. After decades of success using a model that revolves around brand-centric mass advertising and tried-and-true in-store promotion tactics, we believe that rapidly evolving consumer, technology, and industry forces are coming together to drive real and lasting change.

For CP companies to connect with the mobile, on-demand lives of modern consumers like Alicia it’s important to understand the evolving environment, the capabilities that will fuel success, and the steps CP companies can take toward meaningful progress. The ability of CP companies to adapt to change and optimize their investment in commercial spend will play a key role in driving profitable growth.
Commercial spend comprises four traditionally independent spend types:

- **Trade promotion spend**: Retailer-specific spend by the manufacturer on programs that promote the product in store.
- **A&P/consumer spend**: Targeted advertising and promotion to drive brand awareness, equity, and loyalty.
- **Shopper marketing spend**: Activities aimed at influencing purchase decisions during the retail shopping experience.
- **Digital spend**: The advertising and marketing dollars allocated to digital channels, ideally focused on the micro-targeting of consumers via personalized content.
An industry in rapid flux

The escalation of consumer, industry/operational, and technology shifts continues at warp speed, creating a new landscape of business and competitive challenges for CP companies (see figure 1).

**Shift 1: Consumers in control**

Consumer tastes, preferences, and shopping habits have changed dramatically over the past four to five years. The traditional linear path to purchase has largely been replaced by a “choose your own adventure” approach in which consumers use multiple channels and entry points on their way to the actual moment of purchase. The variety of options—coupons, retailer apps, social media ads, email newsletters, rewards apps, etc.—and evolving, often unpredictable, nature of consumer purchasing habits are upending existing approaches to commercial spend.

Consumers are not only more engaged but more in control of their engagement, and they are willing to give up some of that control to get what they want. Providing an email address or social media profile to a product company in exchange for discounts or added convenience may seem like a worthy sacrifice to many consumers. But as consumers increasingly opt in to offers that can lead to disruptive, algorithmic-driven buying patterns—such as instant reordering or monthly “restocking” subscriptions—CP companies could be edged out of significant selling opportunities.

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**Figure 1. Shifts for commercial activation are fundamental**

- Paper shelf tag
- Physical channel
- Manual
- National
- Months
- Powerpoint
- Reconciliation
- Search engine
- Omnichannel
- Dynamic or programmatic
- Consumer x store x mood
- Weeks and minutes
- Sales app
- Integration

*Source: Deloitte, The grocery digital divide, 2017.*
Shift 2: Disrupted omnichannel business models

Thanks to e-tailers’ pioneering Internet-powered, direct-to-consumer sales model, most consumers now expect the digital and physical purchasing worlds to be accessible through an omnichannel experience.

Building, supporting, and integrating these channels typically requires a dramatic move away from the advertising-driven, in-store retail sales strategies of the past. As e-commerce sales grow from negligible to substantial and price transparency becomes pervasive, CP companies are challenged to quickly and effectively support a multipronged approach for marketing and selling their products—one that provides a new level of convenience for consumers and doesn’t alienate their traditional retail partners.

Determining how to use commercial spend to drive demand is an important part of this equation. Investments should “follow” the consumer—targeting them where they shop and browse—which requires integrating digital and brick-and-mortar channels and potentially reducing investment in less relevant channels and vehicles.

Shift 3: Technology acceleration

The digital revolution is the primary driver for disrupting how consumers are contemplating and making purchases. This same digital technology—along with data collection and analytics advancements—can enable CP companies to engage consumers in more targeted and effective ways.

New automated and cognitive technologies are enabling CP companies to track, analyze, manage, and respond to consumer behaviors rapidly and effectively. Algorithms in particular are bringing unprecedented flexibility and opportunism to pricing capabilities and sales tactics, enabling some companies to change product prices online in a matter of minutes based on real-time consumer and market activity. Machine learning and cognitive models can be used to analyze past campaigns, identify areas for improvement, and programmatically manage sales and marketing activities to impact the ROI of future activities.

All told, these advancements can help CP companies not only measure the impact of their commercial spend strategies with greater accuracy and efficiency, but proactively allocate them. However, technology investment prioritization and integration remain key challenges for CP companies.
A new perspective on commercial spend

We believe there are three key attributes of a successful next-generation commercial spend model:

**Faster**
From months to minutes: CP companies need to be able to more quickly sense and respond to consumer shifts along the path to purchase—not just via post-promotion and marketing mix analysis. Understanding where the consumer is at every point in this journey and being able to adjust communications and incentives in real-time context can put CP companies in a better position to capture incremental brand impressions, sales, and pricing opportunities.

**Granular**
From national to individual: Replace broad-brush, nationwide promotional events and marketing campaigns with hyperlocalized and targeted initiatives driven by real-time data insights. Advanced analytics help CP companies more accurately target and engage individual stores and consumers based on personal preferences, buying habits, and online behavior. These insights inform both strategic and tactical decisions, enabling the pursuit of new growth opportunities.

**Connected**
From silos to seamless: No promotion should be an island, and yet that is how traditional marketing and trade promotion have worked for years. CP companies need to think differently about what an integrated sales and marketing capability should look like. Uniting all consumer interactions across digital and physical channels is essential—as is consistency across the ecosystem of trade and marketing channels, retailers, and partners. Building data lakes to capture data across different sources and parts of the organization and investing in integrated systems can increase agility, foster transparency, and improve quality of insights.

**Faster in action**
- Frequent price and promotion changes
- Rapidly activated in-store opportunities
- Compressed campaign and account planning cycles
- Fast-tracked approvals
- More informed, real-time media mix and campaign optimization

**Granular in action**
- Ultra-personalized offers
- Targeted marketing
- Store-level promotional activations
- Codified playbooks/guardrails
- Occasion-based funding decisions

**Connected in action**
- Integrated view of commercial spend
- Synced HQ-to-field collaboration tools
- Combined plan across functions
- Connected retailers and noncompetitive CPG manufacturers
The model for making it happen

Taking an integrated approach to commercial spend can help CP companies more effectively engage digitally savvy consumers in store and online. But what replaces the decades-old model? Based on our industry knowledge and experience working with leading CP companies, we believe the model for future commercial spend requires four fundamental pillars—all powered by a responsive, data-driven cognitive engine (see figure 2).

**Figure 2. A new model for consumer spend optimization**

**Define the strategy.** Develop an integrated commercial spend strategy based on prioritized moments that matter along the new and unscripted path to purchase, informed by the corporate and brand strategy. This process requires in-depth, actionable consumer and retailer segmentation and consumer experience analysis to identify the moments and tactics in which you can influence a purchase decision.

**Build the playbook.** Establish guidelines for operating in this new environment. Digitize and codify them into playbooks, funding, and budget structures so they are embedded into planning and execution tools. Guidelines can be adjusted at the management level—but available to the field in minutes—to support hyperlocalized, ROI-optimized decision making without compromising controls and strategic intent. The integrated, flexible nature of these digitized playbooks marks a sharp break from the rigid spreadsheet-based approaches of the past 30 years.

**Develop plans.** Conduct multilevel spend and volume planning and assessment with new in-period response capabilities, bringing together key stakeholders from marketing, sales, revenue management, supply chain, etc. Defining governance and accountability for the process—and investing in planning tools that support granular planning and cross-functional collaboration—are critical to establishing new commercial approaches for the still largely uncharted digital marketplace.

**Activate the programs.** Create the infrastructure for faster response to shift focus to the execution of marketing campaigns and promotional events rather than planning; improve quality and granularity of data capture to enable local and personal rather than national activation. Invest in machine learning and programmatic capabilities for both marketing and trade activities to focus resources on decisions that truly require attention. Monitor activations and make adjustments mid campaign as necessary, and invest in cognitive technology to automate the often-cumbersome settlement process.
Supporting all four of these pillars is a complex data set and the analytics platform—this is the cognitive engine. Its components generate output and insights that power your day-to-day reporting and are used across the organization to support decision making. The engine’s constant feeding and analyzing of data is what makes this model a continuously improving one that flexes based on current market conditions, enabling you to readjust brand/media, promotion, and pricing strategies to drive greater ROI from your programs and investments.

The building of the pillars and cognitive engine can and should be a fluid process, but progress against each one is critical. Should you methodically map out your commercial transformation road map before implementing anything, or should you jump in feet first? In our experience, a balance of both approaches is advisable: start preparing the foundation while at the same time executing against it in areas where the technology is available or easily obtained by your organization.

Guidelines for getting off the ground

**Think big**

- **Immerse yourself in innovation**
  Explore the “art of the possible” and incite ideas.

- **Look outside**
  Explore what leaders in other industries are doing well.

- **Build your ecosystem**
  Partner and collaborate with nontraditional players.

**Start small**

- **Scaling the edges**
  Identify areas to disconnect from the core business to enable disruption.

- **Pick one or two plays**
  Prioritize your high-growth and high-ROI opportunities, and build on initial success.

**Scale fast**

- **Prove it works**
  Use an agile approach to quickly move from strategy to prototyping.

- **Market your own success**
  Gain enterprise traction from your achievements.
Overcoming obstacles to progress

Organizational realities

Commercial spend functions often operate in different silos, each with its own plans, objectives, budgets, and mentalities. Finding ways to bring these competencies closer together can help you drive commercial spend effectiveness, efficiency, and responsiveness—but it requires open minds and budgets.

Retailer relationships

Like CP companies, retailers are trying to adapt to industry shifts. CP companies should seek out “hungry” retailers who are willing to partner and move fast to pilot and test new approaches. These kinds of collaborations can help mitigate the physical limitations of the traditional model and update the in-store experience for digitally savvy consumers.

Technology adoption

Many companies don’t have the funds to invest in the technologies they need to ramp up a large-scale, integrated commercial spend capability. Finding the right technology leaders—particularly in data analytics—has also been hard. And new technology players enter the arena every day. Focus, flexibility, and the willingness to embrace key innovations will help drive successful technology adoption.

Jump-start progress

- Create a cross-functional team to enable holistic decision making on issues from goal-setting to measurement.
- Encourage rotational programs and cross-functional workshops to facilitate collaboration.
- Consider replacing department-centric budgeting with zero-based budgeting that is outcomes focused.
- Create a chief commercial officer role as part of the leadership team.
- Share insights and successes. Use data and analytics to show how you’re driving greater ROI from the same or lesser spend.
- Work with retailers in new ways across new platforms; look for cross-promotion opportunities outside the store walls to strengthen these relationships.
- Develop “win-win” opportunities for retailers and CP companies across category and brand.
- Build discipline around data science and analytics. It’s the key to your cognitive engine and agile ROI goals.
- “Future proof” investments by building a flexible plug-and-play network of applications that can flex for new technologies.
- Embrace cognitive learning and artificial intelligence. Advancements like algorithmic selling can drive incremental consumption opportunities and promotional effectiveness.
- Partner with other firms to align IT with business goals, prioritize investments, and map risks.
Driving profitable growth in the new era of commercial spend

What is algorithmic selling?

Algorithmic selling combines the power of big data, cognitive technologies, and digital applications to unlock growth in a granular, store-by-store way.

Algorithmic selling uses data collected at the store to make recommendations on micro-opportunities for incremental sales. The recommendations are fed into an intuitive mobile app and continually are fine-tuned over time by an embedded learning capability.

The output is delivered in a natural language, script-ready format that sales representatives can use in direct conversations with customer merchandising teams and store/department managers to propose new approaches and show their financial benefit. Sales representatives provide feedback on what’s working and what isn’t, and the algorithm adjusts to track and measure success.

What makes algorithmic selling possible is the responsive, data-driven cognitive engine at the core of the next-generation commercial spend model (see “The model for making it happen” section of this report). What makes algorithmic selling effective is its ability to support growth-oriented conversations at all levels of customer engagement—from planning sessions at the very top of the CP organization to individual in-store activation.
Momentum is building for integrated commercial capabilities that enable CPGs to optimize spend and ROI. As the competitive environment heats up and the marketplace rapidly evolves, CP companies should step up their investment in these new models to engage digitally savvy consumers like Alicia with personalized brand and promotional experiences.

Don’t let the challenge of reinventing commercial spend hold you back. Start exploring the possibilities, prioritizing your first steps, and pursuing the most fruitful opportunities. Alicia, and many other consumers like her, are eager to see what you have to offer.

Deloitte resources and contacts

Deloitte understands both the historical and modern dynamics of the consumer products industry. Our commercial spend experience runs deep, incorporating cross-functional insights from customer strategy and applied design to operations transformation. We bring alliances with leading technology players, preconfigured assets, proprietary tools, and technology and analytic solutions, such as Polaris™, Deloitte’s agile ROI platform that helps organizations analyze performance across trade promotion, media channels, pricing, and other distribution drivers. And our extensive track record in integrated business planning enables us to integrate your commercial spend strategies and consumer investments into a broader, holistic vision for your company.

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