A CGT WHITEPAPER

# How to Right the Wrongs and Start Making Money with Trade Promotions

Consumer goods profits are on the ropes, and trade promotion has become its punching bag. But deeper analysis proves this blame is misplaced. In fact, when done right, trade promotions drive incremental sales and profits and grow categories. Many consumer goods companies and retailers are missing out on huge incremental revenue opportunities by putting resources in the wrong places and failing to optimize their trade spending dollars.

Companies looking to break out of a cycle of flat sales and declining profits shouldn't pull back on traditional trade promotions: most should get more aggressive with them, and all of them should get smarter. Optimized trade promotions can generate 10 to 15 percentage points of incremental revenue growth and about half that rate in incremental profits.

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TABS
The Analytical Business Solution

## BREAKING DOWN THE MYTHS

Mistaken beliefs about trade promotions are limiting the benefits it can deliver. These include:

- **Myth #1: Most factors suppressing consumables growth are outside brand control.** Growth in the consumer products industry was 2.1 percent in 2014 and 1.6 percent the year before, according to Boston Consulting Group[i]. Many blame the cautious consumer and economic conditions. While it is true that government and industry data says overall consumer spending has slowed to a 3.2 percent growth rate since 2012, the most significant finding is that share of spending on food and beverage in channels tracked by syndicated data has grown at less than half that rate, according to both Nielsen and IRI. That means less than half the slowdown is due to macro-economic factors beyond the control of the consumer products industry. More than half of the shortfall consumer spending (56 percent) is controllable, by influencing how consumers spend their money and the channels where they choose to spend it.

- **Myth #2: Promotional sales spikes aren't truly incremental**. Many believe promotions cause consumers to stock up, negatively impacting sales after the event (sales dip), by cannibalizing their own brand, shifting sales from other brands or taking sales from other retailers. But a deep dive into the research, found in Dr. Kurt Jetta's Fordham University doctoral thesis *A Theory of Retailer Price Promotion Using Economic Foundations: It's All Incremental*[ii], concluded that not only is there no post-promotion dip, but also no wear-out from promotions, either from deal depth or deal frequency. The research also found that the absence of promotion doesn't help improve the baseline sales, and, in most cases, there appears to be no limit to the frequency with which promotions can be executed. All are consistent with the economic foundations of consumer demand theory.

- **Myth #3: Consumer goods companies should focus on millennials and online channels.** Despite the hype, these offer minimal opportunity for most consumer goods companies. Research conducted by TABS Group, *The 2014 Consumer Value Study*, found purchasing by females aged 18 to 34 was down sharply in 14 of 15 categories from 2013 to 2014, and they accounted for only 15 percent of sector sales at any rate. Millennials are marrying later and living at home longer, thereby reducing their demand for consumer goods. Further, millennial females are spending on technology instead of consumable goods, according to eMarketer and Pew Research[iii]. Households with kids and females 35 to 54 remain the best marketing and promotion opportunity.

  Meanwhile, online channels account for less than 2 percent of consumables sales, the Consumer Value Study found. Further, McKinsey & Company identified household products and grocery as the least likely categories to be purchased online[iv]. What online is driving is deal-seeking behavior across many subsets of consumers. TABS Group research has found that retailer deals are becoming less compelling to consumers and are having less impact on sales. Promotion spending is becoming less profitable because consumers don't like the deals they're finding in consumables.

- **Myth #4: Consumer goods companies are doing too many trade promotions.** Many blame poor trade promotion results on the vehicle, when it's the execution that is flawed. In Canada, promotional activity is much heavier. In most categories promotional activity is two to three times the level of comparable categories in the United States, according to TABS research[vi]. Further, most Canadian brands derive 35 percent or more of their sales from incremental promotional lifts, whereas in the United States that number is around 15 percent to 20 percent. If promotional activity in the United States were doubled, the incremental lift on U.S. sales *would drive 13 percent incremental growth* for the consumer packaged goods industry.

Promotions actually expand categories.

- **Myth #5: Loyalty programs are the solution to bring in new consumers and keep them**. Major retailers are flocking to loyalty programs, but sales data shows top consumer goods sales drop sharply when such programs become their primary promotional vehicle and immediately increase when they're terminated or executed in tandem with other vehicles. In addition to being less effective and less popular than traditional promotional vehicles such as ads or FSI, loyalty programs are much more expensive to implement since the manufacturers carry a higher percentage of the discount subsidy, TABS Group research has found. Brands' biggest consumables buyers, females aged 35 to 64, are the heaviest deal buyers and among the least loyal. In fact, all consumer segments are demonstrating less loyalty even as loyalty programs multiply and users of "programs" were found to be among the least loyal shoppers in the store. Loyalty is a weapon in the arsenal, not the magic bullet.

## DEEPER ANALYSIS OF COMMON MISCONCEPTIONS

Another reason for disappointing results is that trade promotions are under-managed: *CGT* Custom Research from the December 2014 issue of *CGT* found 0 percent of consumer goods companies rate their management of trade promotions as excellent, with the largest group, 44 percent, calling their capabilities average. Just 18 percent adhere to their own Trade Promotion Management (TPM) policies all the time.

And when companies turn to technology to help, they often invest significant time and money to first implement TPM, only later adding trade promotion optimization (TPO). That two-step approach is unnecessary and delays the time to benefit. Consumer goods companies can use TPO to learn how to run their trade promotions better, a benefit they can start gaining even as they tackle trade planning management. In fact, doing TPO alongside TPM makes both activities better, faster, and delivers rapid benefits and return on investment. TPM without optimization is planning in a vacuum.

For example, when Japanese food service and private-label manufacturer Mizkan acquired Ragu and Bertolli from Unilever in 2014, the new division of Mizkan Americas, R&B Foods, also inherited an under-supported promotional program. With little experience in consumer-level brand promotions, the company needed to come up to speed fast to correct a dip in revenues and honor higher-than-average trade spend commitments. By implementing TPO concurrent with its TPM implementation from another supplier, R&B Foods experienced dramatic gains in promotional performance. At the Promotion Optimization Institute meeting in April 2015, Tim Carrigan, VP of Sales Capabilities for R&B Foods, reported the following: "On all measures – Average Events, Incremental Lift per Event and Incremental Units – both brands improved performance. Incremental Units, in particular, grew 13 percent on both brands."

According to Gartner's *Vendor Panorama for Trade Promotion Management in Consumer Goods*,[vii] "CG companies have realized that they need to improve their ability to execute trade promotions independent of changes in the economy."

## GREAT PROMOTIONS START WITH BETTER DATA

Consumer goods companies already have or can gain access to everything they need to drive profitable promotions, but they need to take a new approach to get there. Too often brands accept inaccuracies in data as inevitable and jump to analysis, so results are inherently flawed. Many also expend too much time and resources to manually align data. Trade promotions based on poor data miss the mark, and launch a vicious cycle of bad data driving future bad promotions.

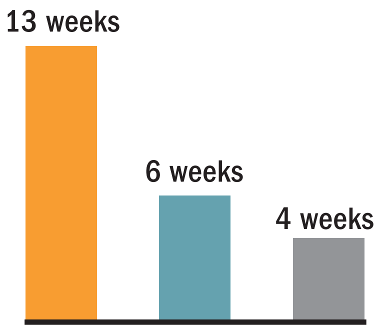
Well-managed data flips that paradigm. Data that is correctly cleansed and harmonized prior to promotional measurement and optimization produces meaningful and accurate results. Analysis of those results shape future strategies that will maximize profits.

**Step #1: Data Cleansing.** Raw trade promotion data is dirty: Because it comes from multiple sources, POS, spending and qualitative data such as images are captured inaccurately, with misalignment in products, dates, markets and measures. For example, the brand plans one set of dates but the retailer shifts the promotion timing without notice, while syndicated data reports still another set of dates. Shipment data further clouds the picture with conflicts between codes and UPCs. Failure to fully cleanse data leads to baselines that are too inaccurate for good promotion planning.

Any company that has implemented an ERP knows the significant upfront work required to cleanse data and develop the logic and rules that make it useful. The same is required in trade promotion solution implementation, and most often that burden falls on the client company rather than the software or service provider. These tasks often extend implementation times to six, 12 or even 18 months. Further, the company has little experience in data harmonization, so that lack of experience builds flawed data into the TPO process.

When those tasks are turned over to outside analytics experts, the impact on the time to benefit is dramatic. Consider these implementation times experienced by several customers of TABS Group (*see Figure 1*):

**FIGURE 1**
TPO IMPLEMENTATION TIMES




**Energizer Personal Care**
5 categories, 5 brands *(April 2014)*

**Prestige Foods**
7 categories, 40 brands *(June 2014)*

**R&B Foods**
1 category, 40 accounts *(April 2015)*

## ENERGIZER PERSONAL CARE SHAVES THE WASTE FROM ITS TRADE PROMOTIONS

To keep its array of market leading brands on consumers' minds and in their shopping carts, Energizer Personal Care engages in a heavy promotional calendar across its wet shave, sun care, feminine care, infant and toddler feeding and gloves. And like many consumer goods companies, Energizer wanted to better understand promotion performance to drive future results.

With an array of complex promotions, Director of Category Development Peter Seidita and his team knew they faced a significant hurdle: Harnessing and cleansing all of that data to establish accurate baselines on which to build and optimize promotion plans. The brand was devoting three people to data harmonization and still not getting it quite right.

"Post-promotion analysis is like a board game where you have to get across a mud pit of dirty data," says Seidita. "It was imperative to find a tool to enable us to do that easily."

Energizer engaged TABS Group to not only provide the right tools, but the service and expertise to make that happen. TABS PromoMaster®|PromoInsight™ provides Energizer Personal Care with a holistic, dashboard-based view of its trade promotions, modeling two years of promotional history to enable powerful queries and deliver meaningful insights that are improving promotion performance.

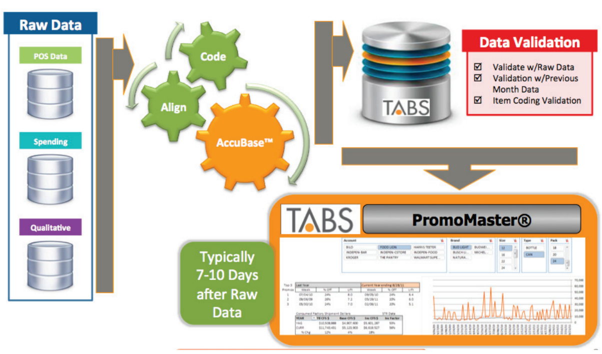
"TABS handles all of the data extract and cleansing as well as report creation and delivery in a tool that is intuitively easy to use and is easy to extract needed insights from," Seidita says. With the TABS team and tool doing all the heavy lifting, "It allows us the time to do value-added things that are really required to drive our business."

**Step #2: Data Harmonization.** In addition to cleansing data, it is essential to get disparate data aligned so it can be viewed through a single lens. Often consumer goods companies focus on analyzing at the item level, when most often a brand-level or promoted product group approach is more effective, because brands tend to promote similar products at similar price points, versus one-off, item-level promotions.

The harmonization process must also take into account factors such as overlays, which are not visible in syndicated data. Overlays typically entail a loyalty offer, free gift or FSI saving call out and they are recording in hundreds of variations in standard ad tracking reporting services. In reality these can be consolidated into a few offer types in order to make sense of the findings (*see Figure 2*), but few service providers take the time to manage that.

**FIGURE 2**

PROCESS OF CLEANSING AND CONSOLIDATING DATA

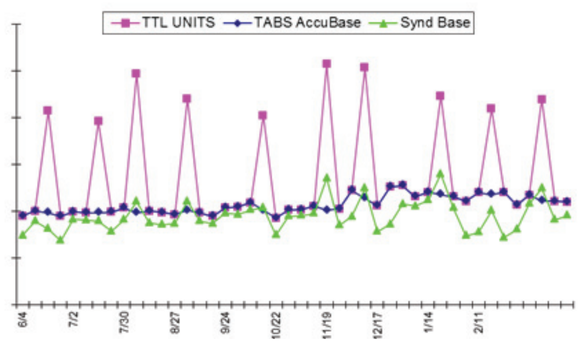



One other data integrity issue is the lack of accurate baseline sales estimates provided in syndicated data. Baseline sales are defined as estimated sales in the absence of promotional activity. There is a very high level of consensus that these estimates are flawed, yet there is little understanding that more accurate solutions exist. An accurate baseline has three distinguishing characteristics:

1) Baselines should be relatively smooth from week-to-week, with little volatility.
2) There should be no correlation between baseline sales and actual sales in promotional weeks.
3) There should be a close fit between actual and baseline sales during non-promo weeks.

**FIGURE 3**

TABS ACCUBASE® BASELINE EXAMPLE




According to *Model to Improve the Estimation of Baseline Retail Sales*, which was published in a peer-reviewed academic journal, *Journal of CENTRUM Cathedra*, TABS Group's AccuBase® model is a statistically valid approach to establishing accurate baselines (*see Figure 3*). The model is more extendable than syndicated baseline models because it requires only dollars and units from scanning data: It does not rely on causal-based measures which can be expensive to obtain – or unavailable. It can be used for any retailer than has weekly scanner data in any country, not just ones that participate in Nielsen or IRI's U.S. service.

"The single biggest barrier, and one few companies have been able to overcome, is data harmonization.  TABS Group was able to complete that process within 13 weeks," says Peter Seidita, director of Category Development for Energizer Personal Care. "Second, we relied on TABS AccuBase® to deliver a more consistent baseline which not only improves post-promotion analysis but helps future promotion forecasting."
In his POI speech, R&B's Tim Carrigan shared one example of a bad baseline for Bertolli at one Northeast retailer. There were two events that each generated 21,000 units but the "phantom spikes" in the syndicated data baseline estimates

showed one moved 5.8 Weeks of Supply, and the other moved 3.3 Weeks of Supply. Actually both moved 7.2 Weeks of Supply, a dramatic difference.

**Step #3: Data Analysis.** Clean, properly categorized and accurate data provides an essential foundation for the trade promotion measurement, insight development, and event planning activities that enable brands to reap much better returns on their promotional spending. Using powerful and intuitive analytics tools empowers brands to instantly gauge the incremental sales of promotional events in real time and identify any potential brand cannibalization, channel switching, and competitive share gains.

## THE SECRET SAUCE: EXPERT RESOURCES

Accurate data and robust analytics tools are essential for optimal trade promotions. But for many companies, the data harmonization and management piece of the TPO development and implementation process creates the greatest burden and complexity to realizing their goals. A growing number of consumer goods companies are eliminating this significant burden by aligning with technology-enabled analytics firms staffed with experts in applying database management and library science skill sets to harmonize promotion data. Experts leveraging proprietary database coding processes that both set up and maintain custom category databases by client become the secret sauce that enables these companies to move quickly and realize the benefits from TPO, rather than stall on complex implementation challenges that cost millions of dollars.

This is a core competency of TABS Group, which has analyzed hundreds of thousands of individual promotional events over virtually every U.S. Food, Drug and Mass-Market retailer and consumer goods category.

## SEIZING THE UNTAPPED OPPORTUNITY IN TRADE PROMOTIONS

TPO is an iterative process, in which each promotion experience helps build a knowledge base that in turn improves the next promotion. When built on a solid foundation of clean data, well-defined rules and measures and correctly harmonized data streams, it creates a virtuous cycle in which promotion planning and spending becomes more efficient and more profitable. These profits can be reinvested in consumer programs that build baseline sales, and high baseline sales translate into even more profitable promotions. Rather than the usual trade versus consumer programs friction, better trade spending actually means the two can work together. The beauty of a rapid implementation process combined with robust cleansing, harmonization and analytics is that the learning begins accruing quickly, laying the groundwork for this continuous improvement.

Gartner's *Vendor Panorama*[viii] confirms the urgency to generate such improvements. "Enterprises using spreadsheets to manage trade spending should consider automating these processes as soon as possible. With trade spending continuing to increase and the need for strong analytics as a differentiator, it doesn't make sense to wait."

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[i] http://www.bcg.com/media/PressReleaseDetails.aspx?id=tcm:12-183833
[ii] http://www.tabsgroup.com/wp-content/uploads/2013/02/KJ-FINAL-Dissertation.pdf
[iii] http://webinars.tabsgroup.com/video/108831172
[iv] http://www.mckinsey.com/insights/consumer_and_retail/tough_choices_for_consumer_goods_companies
[v] http://webinars.tabsgroup.com/video/108831172
[vi] http://webinars.tabsgroup.com/video/101954071
[vii] Gartner, Vendor Panorama for Trade Promotion Management in Consumer Goods, Dale Hagemeyer, 31 August 2012 (Gartner Foundational)
[viii] Gartner, Vendor Panorama for Trade Promotion Management in Consumer Goods, Dale Hagemeyer, 31 August 2012 (Gartner Foundational)