



PROMOTION OPTIMIZATION INSTITUTE

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CHARTING YOUR COURSE TO TRADE PROMOTION OPTIMIZATION II - BENCHMARKING STUDY

CREATING HIGHER LEVELS OF TRANSPARENCY WITH PERFORMANCE MEASUREMENT, AND INSIGHTS IS A TOPIC ON EVERY TRADING PARTNER'S AGENDA

Executive Summary

Retailing and manufacturing companies must adapt to the rate of change that is impacting sales, stores and effecting growth. Evolving retail formats, value-oriented customers, new competition, digital transformation, and greater access to data present new opportunities for those companies that take action. Over the past two years, leading companies who have begun their journey to optimize pricing, promotion, and collaboration capabilities are progressing to keep pace with their trading partners and shared customers.

Retailers and manufacturers are continuing to improve their Trade Promotion Optimization (TPO) capabilities and strategies. They are beginning to collaborate for success in ways we have not previously thought of before.

This study presents trading partners with a grasp of where they stand in relation to their peers, and what capabilities are needed including advanced analytics and skills to succeed in a rapidly transforming retail environment.

Key Findings

Key survey findings demonstrate how trading partners are executing with collaborative promotion optimization:

- More than 30% of companies are sharing key performance indicators with their trading partners.
- Two thirds of companies have created Trade Planning Centers of Excellence.
- Only 12% of companies feel their analytical capabilities are consistently on par with trading partners.
- Only 26% of companies have developed operational and financial scorecards across functions.
- 41% of companies are routinely implementing planning and execution capabilities in order to collaborate, yet less than 5% utilize tools to their fullest potential.

To better understand how the industry is maturing across Trade Promotion Management (TPM), Trade Promotion Optimization (TPO), and Collaborative Promotion Optimization (CPO), the Promotion Optimization Institute™ (POI) with Gartner surveyed sales, marketing, and merchandising executives at leading Tier 1 and Tier 2 companies in the fast-moving consumer goods (FMCG) industry. Several questions in this study are based on the POI/Gartner Promotional Collaboration Capability Matrix; this report shows companies that have charted their course and follows them on their progression in their TPM-TPO-CPO journey. The results illustrate that Retailers and Manufacturers are making strides and continuously improving their cultural, personnel, and technological capabilities in new ways. They're becoming more predictive in their approach, and recognizing the critical need to analytically manage their businesses. This includes better forecasting (every day, and on promotion), to improved cross-functional capabilities, Centers of Excellence, and enabling technologies.

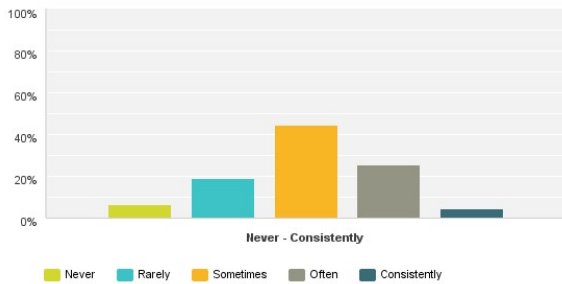
We provide insights and measures about where trading partners stand, in terms of cultural capability (ability to collaborate), and personnel, from optimization strategy to results, including:

- What is important for the dialogue with cross-functional team members, and trading partners.
- A better understanding of the key skill sets for trade promotion optimization being implemented today.
- Gauging your progress along with peers who continuously improve their innovative TPO practices and,
- Whether or not trading partners have the tools to do this.

How are leading companies collaborating on promotion optimization?

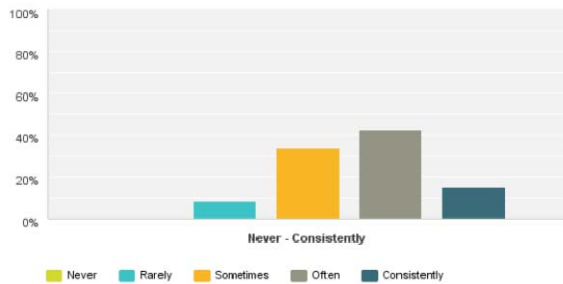
Creating higher levels of transparency with performance measurement and insights, is a topic on every trading partner’s agenda. Knowing how to create and sustain a collaborative culture capability (or the ability to collaborate) for most Retailers and Consumer Goods Manufacturers is the greatest challenge, and it takes time. What is most encouraging about our findings is more companies are taking the lead with collaborative promotion optimization, sharing Key Performance Indicators with their trading partners, and focusing on mutual wins. Today, more than 30% of the companies surveyed are doing this often or consistently (see Figure 1). Additionally, more companies today (two thirds of those surveyed) are moving in this direction, enabling collaboration through their ability to deliver clean data, plus a willingness to share that data, best practices, and taking any necessary action to improve mutual outcomes (see Figure 2).

Figure 1: Collaboration and Optimization



Source: POI and Gartner research, 2014

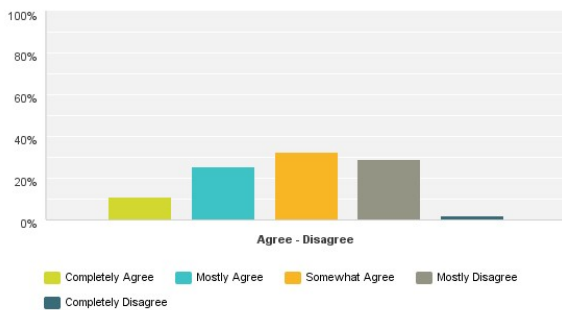
Figure 2: Data Sharing



Source: POI and Gartner research, 2014

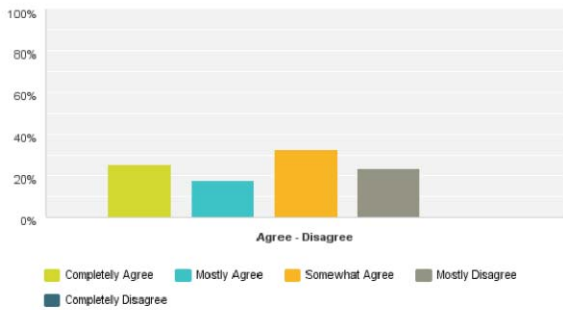
One third of companies now have their Trade Strategy aligned and connected from the field to headquarters, and out to trading partners. They are measuring and analyzing performance through a metrics based approach (see Figure 3). More success is found internally at consumer product companies, where (51%) can plan/execute promotions with moderate success; where they are focused on a broader team approach with respect to culture, personnel (Strategic, Financial, Sales, S&OP) with fully Aligned Plans (see Figure 4).

Figure 3: Trade Strategy and Assessment



Source: POI and Gartner research, 2014

Figure 4: Collaborative Planning

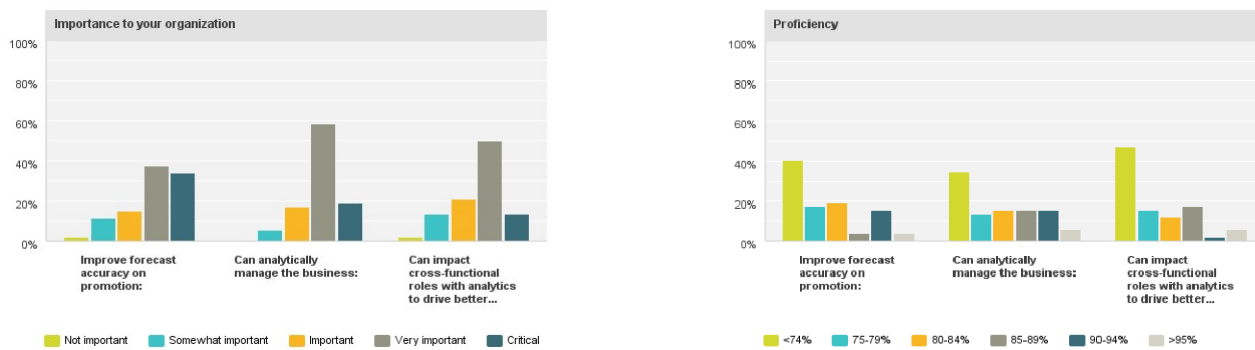


Source: POI and Gartner research, 2014

When we asked what capabilities were most critical for the dialogue with cross-functional team members and trading partners; improving forecast accuracy on promotion (80%), analytically managing the business (77%), and impacting cross-functional roles with analytics to drive better retail execution (63%) rose to the top. However, this is sharply contrasted by the proficiency with which trading partners can do this today. When conducting separate interviews, we found that several companies are in the throes of implementing new processes and tools, yet have not fully implemented, nor achieved the full benefits due to recent implementation.

As trading partners seek to understand the difference in sales and assortments online and in the store, it becomes critical that the supply chain is integrated with sales and marketing to efficiently meet demand requirements and satisfy financial targets.

Figure 5: Evolving Capabilities

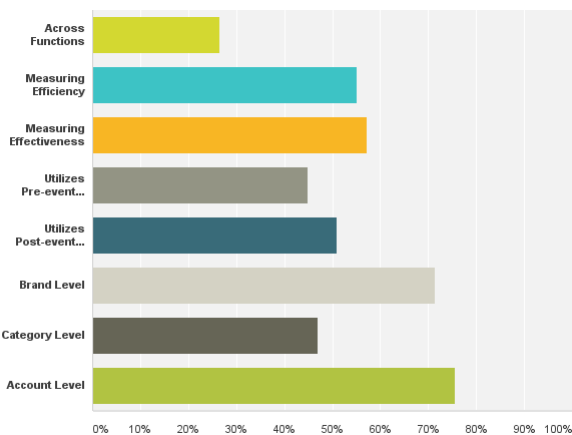


Source: POI and Gartner research, 2014

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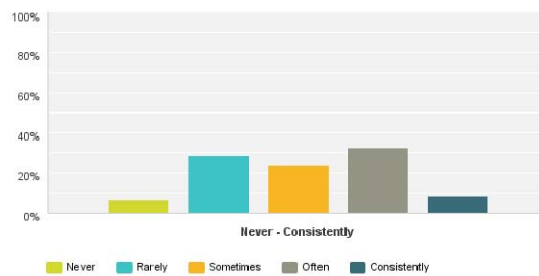
Companies are becoming more analytically driven at the Brand and Account level with planning and measurement (Event ROI & Lift Matrix, including opportunity analysis). Over 70% report that these teams are utilizing scorecards and metrics to identify and continuously improve how marketing activities and investments should be aligned to deliver volume, share, and financial targets (see Figure 6). As an industry, we are still falling short when it comes to integrated planning, though more respondents are now migrating from Excel to fully integrated promotion management and optimization solutions. Whereas in past surveys there were no companies reporting that they consistently communicated across functions, here we have nearly 10% of companies collaborating internally on a consistent basis (see Figure 7). The trend is clearly visible here that trading partners are becoming more stringent, and consistent with program management, and continuous improvement.

Figure 6: Measurement and Metrics



Source: POI and Gartner research, 2014

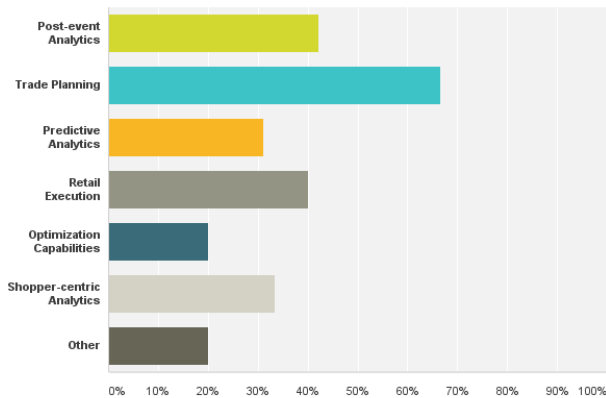
Figure 7: Integrated Business Planning



Source: POI and Gartner research, 2014

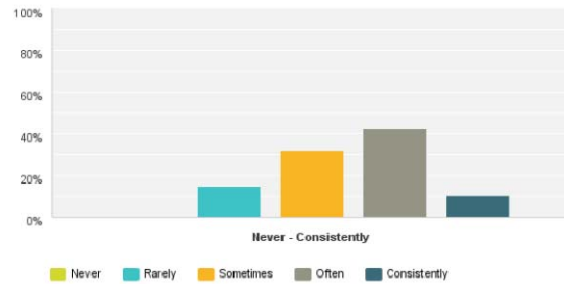
Trade Marketing is increasingly becoming integrated with other internal functions, and across to trading partners to understand the full impact of these decisions. Leading companies have created Centers of Excellence (CoE), with Trade Planning leading the way, as two thirds of respondents have invested in this capability. While having a Post-event CoE is surprisingly low, at 42% of companies, we are encouraged that 20% of companies have developed CoE's around Optimization Capabilities (see Figure 8). When it comes to investing in the personnel for Trade Promotion Optimization, we see a growing number of companies improving by hiring and training for the necessary skill set to achieve desired results (see Figure 9).

Figure 8: Personnel - Centers of Excellence



Source: POI and Gartner research, 2014

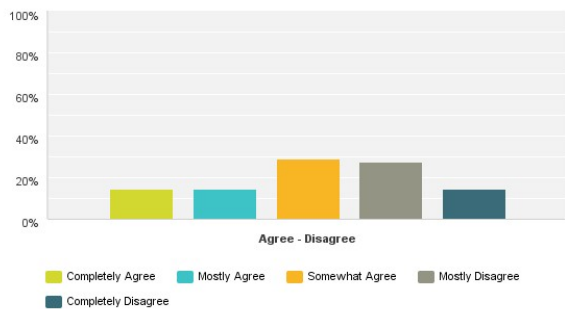
Figure 9: Personnel – Skills and Training



Source: POI and Gartner research, 2014

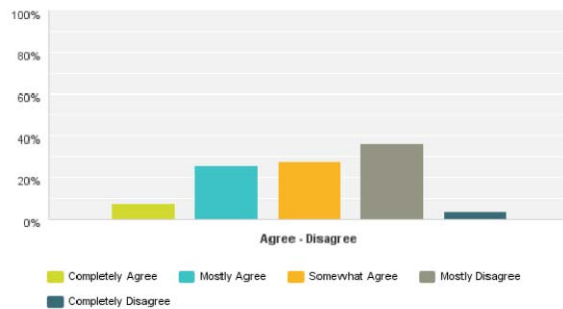
It is encouraging that more companies are investing in optimization and predictive capabilities (see Figure 10), however, less than 5% of companies that have invested in these tools, utilize them to their fullest potential (see Figure 11). Part of this is due to the newness of the technology, plus finding the right balance between internal and external resources.

Figure 10: Technology - Ability to Collaborate



Source: POI and Gartner research, 2014

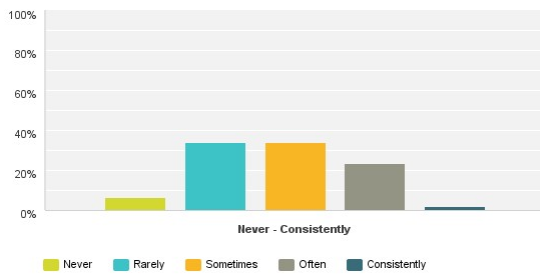
Figure 11: Technology - Ability to Collaborate



Source: POI and Gartner research, 2014

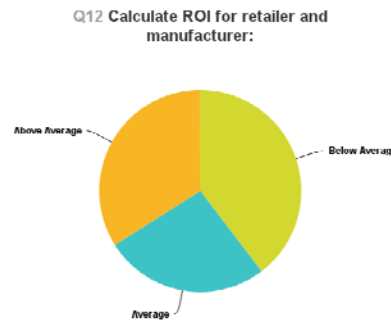
Based on this study, Trading Partners are beginning to acquire and implement advanced analytical capabilities to enable pricing and promotional strategies, plus achieve collaborative promotion optimization. Sales, Marketing and Merchandising functions are clearly shifting to a scientific approach to shopper/consumer definition and acquisition as tools and data are more accessible. Leaders are measuring predicted versus actual results, and through course correction, continuously improving their ability to profitably serve their shared shoppers/consumers (see Figure 12). One third of respondents are able to calculate the Promotional ROI for both the Retailer and the Manufacturer (see Figure 13), plus leaders are doing this by merchandising type (e.g. TPR, Feature, Display), and with greater accuracy. This study demonstrates that respondents are still struggling with advanced measures (see Figure 14).

Figure 12: Technology – Optimization



Source: POI and Gartner research, 2014

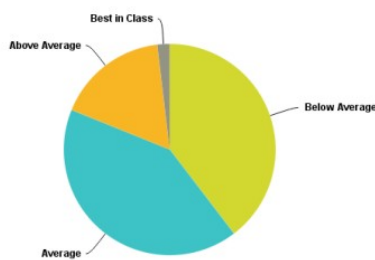
Figure 13: Technology – Optimization



Source: POI and Gartner research, 2014

Figure 14: Technology – Optimization

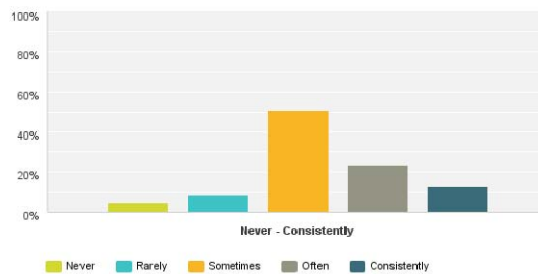
Q11 Adjust for pantry loading, forward buy, cannibalization, Halo Effects, and competing promotions effects:



Source: POI and Gartner research, 2014

Figure 15: Technology – Optimization

Q25 Analytical capabilities are on par with trading partners.



Source: POI and Gartner research, 2014

Conclusion

Retailers and Manufacturers believe collaboration is key to greater success going forward, and according to the survey, we are making progress. Although less than half of the Manufacturers and Retailers surveyed feel that their their analytical capabilities are on par with their Trading Partners (see Figure 15), the gaps are being identified, associated risks and opportunities are accounted for, and efforts are being rewarded. More companies are able to share “what if” scenarios, incorporate new media, and executing on a shared strategy to:

- Identify the best promotions, and continuously improve outcomes
- Improve collaboration and optimization capabilities
- Profitably serve shared customers in the store, at home, or any location

Collaborative Promotion Optimization will continue to gain momentum as companies invest in the cultural, personnel, and technological capabilities in a consistent, and outcomes oriented fashion. This study proves that although it takes time, leaders who commit to this journey are better positioned for profitable growth by understanding and improving promotional outcomes and performance, whether in-store or online.



GENPACT

GENERATING IMPACTSM

Case Study: Consumer Packaged Goods Process - Analytics - Technology

A technology-enabled trade promotion optimizer with multi channel coverage delivers 50% improvement in cycle time and up to 98% forecast accuracy for a Fortune 500 global beverage company

Client

Fortune 100 global beverage company

Industry

Consumer packaged goods

Business need addressed

Transformed pilot TPO system into a robust, user-oriented, and accurate value creator for the entire enterprise

Genpact solution

Our joint team of experts upgraded client systems and expanded the pilot model while improving cycle performance times

Business impact

- Asset optimization
- Access to technology
- Standardization and simplification

A leading consumer packaged goods manufacturer with US\$8 billion in annual trade spend needed a technology-enabled trade promotion optimizer (TPO) solution. Over the course of nine months, Genpact expanded the company's pilot program from three chains to 82 with multi-channel coverage, delivering 50% improvement in performance cycle times in the process and achieving up to 98% forecast accuracy.

Business challenge

Transform the pilot TPO system into a robust, user-oriented, accurate value creator by:

- Expanding the scope from pilot accounts to a production system with complete grocery channel coverage
- Tuning the analytic engine to ensure greater than 80% forecast accuracy for expansion customers
- Upgrading the system and fine-tuning performance to ensure optimal usability for end users as the database grows

Genpact's taskforce of experts delivered more than 100 priority system enhancements while expanding the scope of the solution

- Leveraged agile project management (APM) and our partnership with OCS to assemble a (just-in-time) JIT taskforce of technical, functional, and analytics experts
- Expanded the pilot solution from three to 82 chains in two phases over nine months, including not only grocery but target and alternative channels as well
- Upgraded the client's existing system twofold and shortened cycle performance times by 50%
- Delivered more than 100 priority system enhancements

Business impact

This trailblazing solution for both direct and indirect spend impact arrived at true net promotional effect. It exceeded forecast accuracy goals by increasing accuracy to 98%, and shortened cycle times by 50%.

The enhanced technologies provide clearer insight and simpler, more adaptive forecasting processes, enabling the company to use its assets more effectively. The reporting accelerators deployed by Genpact produced such good results that they are being adopted across the enterprise for 2014 trade promotions.

Generating Trade Promotion Impact:

The evolution of TPM: Genpact rethinks its approach

In the past five years, the typical consumer products manufacturer has started three trade promotion projects and churned through three TPM applications¹. Tangible help is needed to target trade spending where it will be most effective for the manufacturer and the retailer, and assist a sales force who has less time and more competing demands than ever before.

TPM projects also have one of the strongest ROI profiles, with average returns within six months. Therefore, the primary consideration is how a TPM change initiative is conducted, not if it should be started.

¹Supply Chain Insights LLC 2012 Survey

A constantly changing landscape

Consumer buying habits have changed, spending in real terms on grocery items has decreased, and the retail landscape continues to change, transform, and consolidate.

The shopper today is more value focused and better informed than ever before. Store brands now form an increasing share of a typical shopper's basket, and consumers buy products closer to usage, buy less on each trip, and buy fewer items on impulse, while broadening where they purchase their groceries. Consumers do detailed research on prices, assortment, and promotions before ever entering a store — and far more efficiently than leafing through the weekly retail inserts. E-coupons have become part of many consumers' grocery trips, with redemption rates many times higher than conventional print coupons.

In many markets, the beneficiaries of grocery shopper behavior changes have been the dollar, club, drug, ethnic, and “C” stores, resulting in a blurring of channels. Superstores have also expanded their share, which is why the real loser is the traditional grocery supermarket.

In response, the retailer's expectations of a manufacturer are higher than they have ever been. Flawless order fulfillment, promotional and pricing insights, investment in shopper marketing activities, purchase of retailer consumption data, and, of course, the manufacturer's promotional payments are essential to a retailer's success and, increasingly, to their relevance and survival.

The manufacturer is facing a double-whammy: upward pressure on cost to serve and downward pressure on revenue. In response, they must improve the predictability of retailer promotional charges and become more effective in how, where, and when trade expenditure is committed — with a focus on shifting the retailer to a pay-for-performance regimen. Transparent, frequent, and granular coordination of the sales forecast with supply chain planning processes is essential.

There is no panacea, but a sophisticated, efficient, and integrated trade promotion management process is a vital component, one that puts power and insight in the hands of the most important link between that process and the retailer — the sales account manager. Therefore, the many challenges in successfully transforming most manufacturers' trade promotion management processes are concerning. Why might that be the case?

TPM initiatives: are they doomed to fail?

TPM has perhaps the greatest reach of any single process in a consumer product company. TPM spans strategic planning, brand marketing, finance, customer service, and supply chain. It relies on innovation inputs from R&D and often extends to third parties through sales and marketing agencies. Satisfying the needs of every party in a single software application is almost impossible, yet some companies try. Too often, the fundamental account planning needs of the sales teams get lost in the mix.

Many questions should be answered (but too often are not) before a company considers the software to support any TPM initiative. Although this does not guarantee success, it will lay a solid foundation and provide benchmarks to measure progress during the transformation.

What about the software?

TPM packages have matured considerably, improving science, functionality, and technology to support the increasingly expanding definition of TPM. Capabilities have been extended across a growing number of consumer product categories and distribution models. Powerful exception management, workflow, and approval capabilities have been added, and the packages have embraced the shift to mobility and cloud platforms.

Today’s TPM software has become by far the most integrated of any class of application. The software depends on clean, up-to-date, consistent master data and is fueled by the exponential growth of data available for planning and analysis. **However, the typical budget and timeline for a TPM software project have changed little over the past decade.**

It is little wonder then that the level of satisfaction and ultimately the success of TPM initiatives — particularly those with a significant software component — have met with limited success.

Cramming everything into a single software package for all possible constituents and in a single project is not working, and is not likely to work. Outcomes will continue to fail to meet expectations unless the approach to TPM software projects changes fundamentally. It’s time to answer more questions.

Question	Example elaboration
What functionality is critical to the core end users, and must be available in the application?	Are the primary end users extensively engaged in software evaluation?
Where will a simpler approach suffice?	Is a simple approach to promotion approval sufficient?
What functionality can I wait for and, if it’s not available, can I the software vendor to include the capability later?	Is mobility capability needed immediately or can I wait?
What improvements or automation do I still need but can be done outside of the TPM software?	Is it critical to perform post promotion analysis within the TPM software or can it be done elsewhere and linked in?
What functionality, and which aspects of my business can I leave out of scope completely?	Are there areas that are marginal or contribute less to TPM spend or sales revenue, or have specific processes & requirements and can be omitted with diluting ROI?

What are my options?

A carefully planned, phased, and blended TPM transformation is best positioned to succeed and will deliver the strongest results, combining:

- Rigorous up-front analysis and planning at the outset of the initiative
- Inclusion of field sales at each step, including adjusting MBOs to recognize the individuals accepting additional responsibilities
- Passionate commitment to process improvement, harmonization, and simplification with a clearly defined owner for each process area
- Assessment of what is critical in a TPM package and what can be accomplished in other ways

- Evaluation of business process outsourcing (BPO and managed services options, fully integrated into the transformation and interwoven with the software deployment — reducing complexity in the package, providing opportunities to phase changes more easily, driving process and change initiatives, and relieving the stress points that burden TPM packaged software projects

These considerations have the same transformation potential for companies that have long since completed a TPM project as for those just starting one.

It is equally important to engage a partner that understands change and how it should be orchestrated into an overarching transformation framework — across areas as diverse as master data management; account planning; and the science of promotion modeling, shopper marketing, and effective deduction management processes.

The intelligent TPM process

Genpact has pushed beyond its Lean Six Sigma heritage to create our Smart Enterprise Processes (SEPSM) that dramatically improves operational effectiveness, helping our customers attain end-to-end process effectiveness and improved outcomes. SEPSM is an uncompromisingly logical and unique methodology that uses granular process and data analysis, sophisticated diagnostics, and cross-functional benchmarks to maximize process effectiveness, integrating process, analytics, and technology.

Genpact goes beyond the diagnostics to actual road maps and execution. Leveraging the SEPSM framework, we engage with our customers for multiple service offerings focused on specific business outcomes across many industries.

The SEPSM for TPM provide comprehensive trade promotion management and optimization services, including advisory and research; promotion and trade fund management; account planning, integrated shopper marketing programs, sales forecasting, and modeling; and settlements, claims, and deduction resolution and post-event evaluation.

Embedded within the TPM SEPSM are Genpact's Smart Decision Solutions, which enable consumer goods companies to intelligently interpret the huge

data volumes to which they have access, making better decisions about their trade and shopper marketing programs and investments.

Employing the power and experience of the world's largest analytics practice, Genpact helps our customers better utilize the explosion of consumer data sources to understand buying behavior, develop trade marketing strategies, and ultimately improve the effectiveness of trade promotions, providing account teams with the essential insights the retailer is demanding.

Genpact has forged close relationships with some of the most important technology vendors in the consumer goods space. Our relationships with Oracle and SAP and our extensive experience of packaged TPM software implementation and customer-specific TPM solutions combined with the rigor of the SEPSM for TPM uniquely positions Genpact as the broadest and deepest partner for a TPM transformation — whether a full end-to-end transformation or specific initiatives targeted at current gaps or weaknesses in a process or insight.

Genpact works with leading consumer products manufacturers across the globe to help transform their TPM processes, including:

- Providing a European manufacturer and marketer of biscuits, cakes, and snacks with the capability to model and compare multiple “what if” promotional scenarios and deliver simplified and standardized promotional processes resulting in decision making in 15% less time, critical in a short-cycle business
- Using leading proprietary analytical models for a leading U.S. snack manufacturer and distributor to provide critical insights to the account teams on account switching, brand switching, and self-cannibalization during promotional periods, resulting in a significant shift in promotional calendars and trade spend utilization
- A shopper marketing solution for a major U.S. packaged foods company that applied a scientific approach to more than 600 shopper marketing events, resulting in more than 20% improvement in event and tactic effectiveness



- Expanding the capabilities of a major global consumer product manufacturer's U.S. TPM solution to integrate promotion setup and funds management with deductions management and a focus on promotion modeling that resulted in a 50% increase in forecast accuracy over their legacy process
- A solution for a global brewery's South American operations to address short-term retail promotion activation, price point planning, post-activity tracking and payment approval, and longer term in-store placement, volume incentives, cooler placement, and plan-o-gram compliance

People	Process	Technology
Who in the organization am i doing this for?	Does the company culture allow for individual decision making and accountability?	What can't I do today that I must do to compete?
Do I have the right people in the right roles?	Do I have a true planning culture today?	Where is my critical data and is it adequate?
Is my organization aligned correctly?	How do I standardize my process and planning?	Do I have the right planning structures today?
How do I obtain alignment & acceptance before I start?	How long does account planning take and how long should it take?	What are the company's critical measures and do I have them benchmarked?
What are my objectives and are MBOs aligned with them?	Do I understand my customer segmentation—and does it reflect the market and company priorities?	What are my customer's most important measures and do I have them benchmarked?
How do my people, and how do I define success?	Have I defined my core business and core customers?	Where will my people do most of their work?

A journey, not a project

Genpact understands that moving an entire sales organization through a trade promotion transformation requires commitment, patience, and leadership. It requires the sales organization to be an integral part of, not just a recipient of the change. It requires a long-term view, constant communication and visualization and a willingness and ability to be flexible and adjust as customer and market conditions change. It requires a deep understanding of and the ability to improve business processes and, ultimately, means treating a TPM transformation as a journey, not a project.

Companies that embrace this approach will benefit from the compelling ROI that TPM software offers, but the purpose will be clearer, the boundaries better defined, and the process optimized, streamlined, and focused on the needs of the core users. The chances for success will be radically improved as the users themselves will have helped define, shape, and ultimately own the journey.

About the Promotion Optimization institute (POI)

POI brings together manufacturers, retailers, solution providers, analysts, academics and other industry leaders. Members of POI share cross-functional best practices in both structured and informal settings. Additionally, members benefit through our industry alliances, the Certified Collaborative Marketer (CCM)TM program, and industry-leading Spring and Fall Summits.

POI aims to instill a financial and metrics-based discipline not typically found with other trade groups. The goal of our innovative approach is collaborative promotion optimization. The focus is on the customer/shopper through sales, marketing, and merchandising strategies. Executive advisory boards keep us apprised of industry needs and help us provide desired outcomes for members, sponsors, and academia.

About the Sponsor

Genpact Limited (NYSE: G) stands for “generating business impact.” We design, transform, and run intelligent business operations including those that are complex and specific to a set of chosen industries. The result is advanced operating models that foster growth and manage cost, risk, and compliance across a range of functions such as finance and procurement, financial services account servicing, claims management, regulatory affairs, and industrial asset optimization. Our hundreds of long-term clients include more than one-fourth of the Fortune Global 500 — and of those, over 10 are in the top 25.



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