

# Collaborative Marketing Driven by Advanced Analytics Summit

Ensuring Your Successful TPM-TPO  
Retail Execution Journey



## ROADMAP TO ACCELERATING OUTCOMES

# TRADE PROMOTION INEFFICIENCY IS GETTING WORSE



● % Of Weeks On Promotion  
 ○ Trade Promotion Efficiency



**232**  
Categories



**13**  
Departments



**1M**  
UPCs



**92MM**  
Event Weeks



**304.8B**  
US Retail Sales

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# EQUITY MARKETS PURSUING DETAILS TRANSPARENCY

EQUITY RESEARCH | November 3, 2015

## US Consumer Packaged Goods and Retail Trade Budgets at a Tipping Point

Opportunity for Food & Beverage to get fit brings risk that retail bottom lines get leaner

Trade budgets – funds funneled from consumer packaged goods companies to retailers for promotions – have been resistant to restraint since they were introduced in the 1970s. At more than \$200 bn in the US alone, trade spending is a bigger expense for manufacturers than SG&A and a vital source of income for retailers. Yet this spending is little



**Jason English**  
(212) 902-3293  
jason.english@gs.com  
Goldman, Sachs & Co.

**Stephen Grambling, CFA**  
(212) 902-7832  
stephen.grambling@gs.com  
Goldman, Sachs & Co.

## Discussing Promotion Optimization Opportunities in Packaged Food

March 2016



RBC Capital Markets

RBC Capital Markets, LLC

David Palmer (Analyst) (212) 905-5998 [David.Palmer@rbccm.com](mailto:David.Palmer@rbccm.com)

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# ENABLERS TO ACCELERATING OUTCOMES



Expertise



Content



Cadence



Scale



Culture

TPx analytics

Helping Achieve Executive Alignment

Partner criteria

# CONTENT, CADENCE, SCALE-> ANALYTICS & TOOLS



## Content

- Predictive = ante
- Category simulation tools
- Granularity



## Cadence

- Annual JBP
- Dynamic for changes

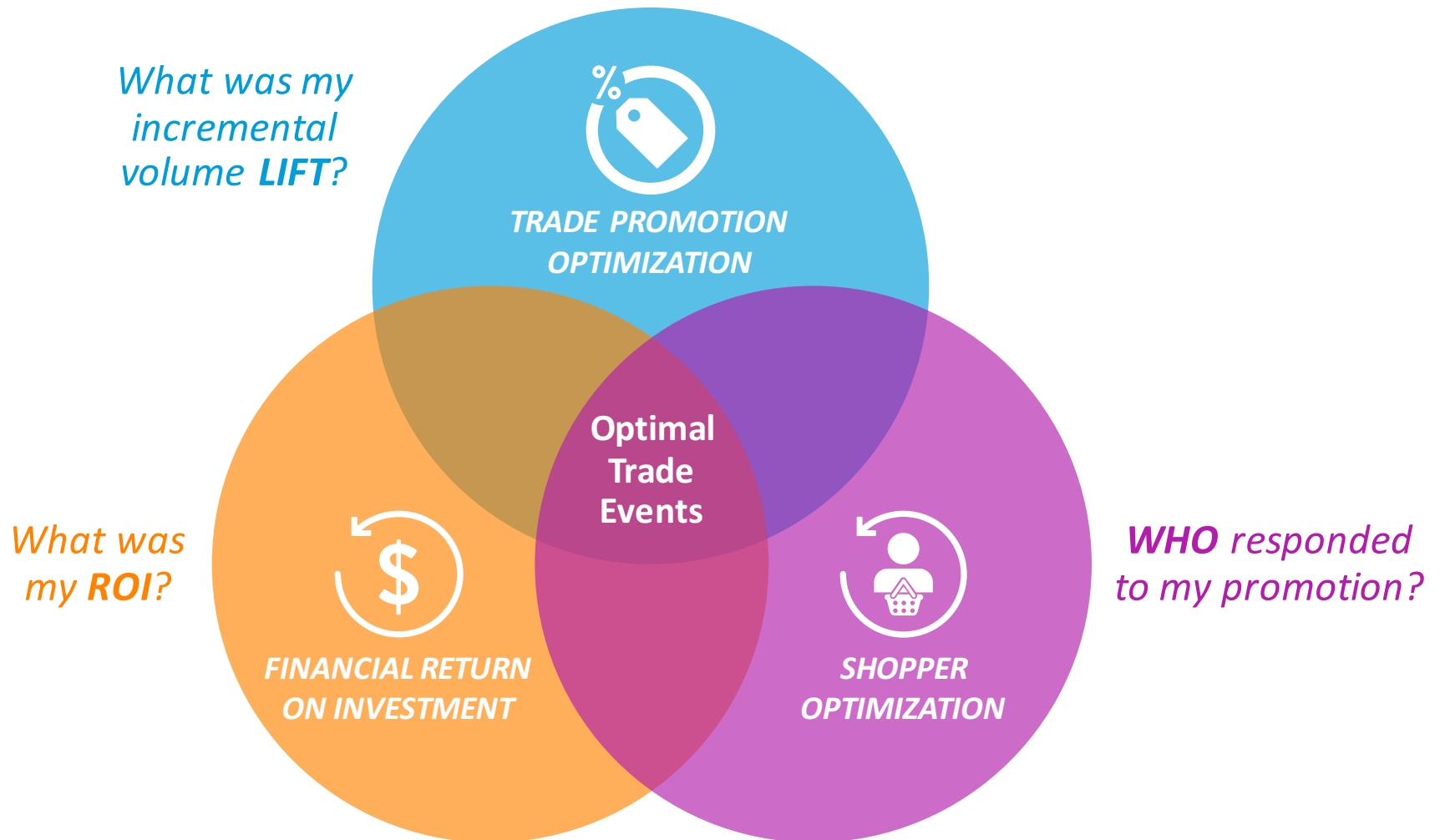


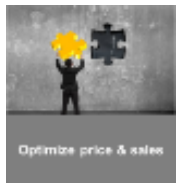
## Scale

- Start small
- Portfolio roles for customers & categories



# IDENTIFY OPTIMAL PRICE AND MERCHANDISING PRINCIPLES ACROSS 3 AXES



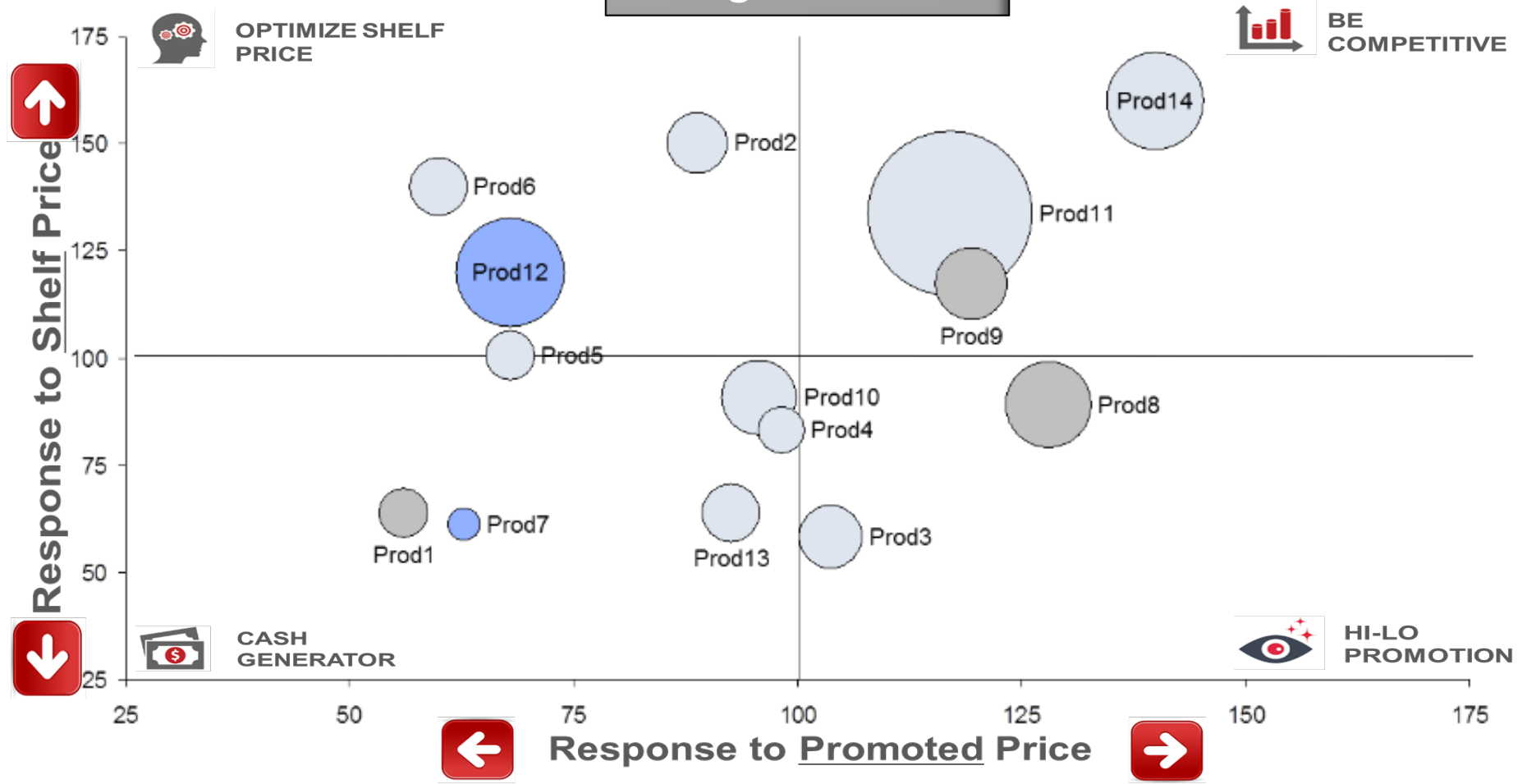


# Optimize Price & Sales | Using price quadrant technique, roles can be defined by item

## 2 Role of Category and Items

Kelloggs | Retailer X | Category A

### Pricing Quadrants



Source: Global Revenue Management – Nielsen Pricing Models Spring 2015

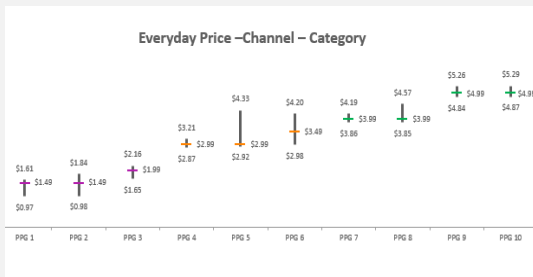


# PRICING ARCHITECTURE

Base Price Insights and Playbook – Outline the “What” of pricing strategy

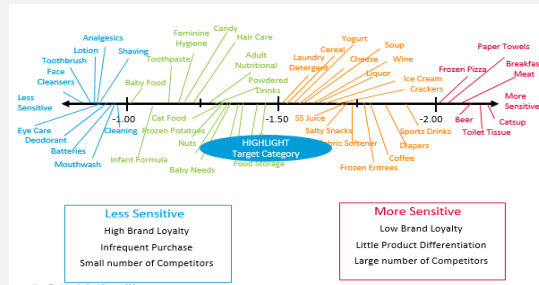
## Pricing Landscape

How am I priced today vs. my competitors?  
What is my price size incentive?



## Industry Benchmark

How does my category compare to others?



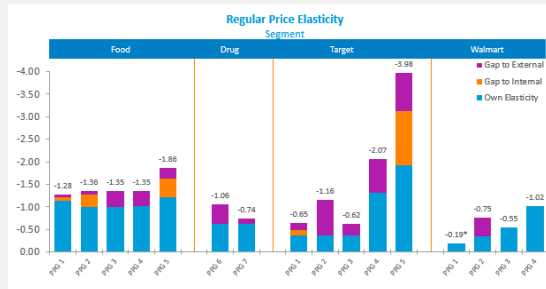
## Everyday Elasticity

How do consumers respond to changes in everyday price?



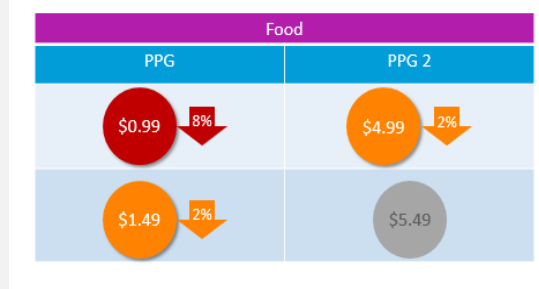
## Drivers of Elasticity

How does absolute price vs. competitive gap influence price elasticity?



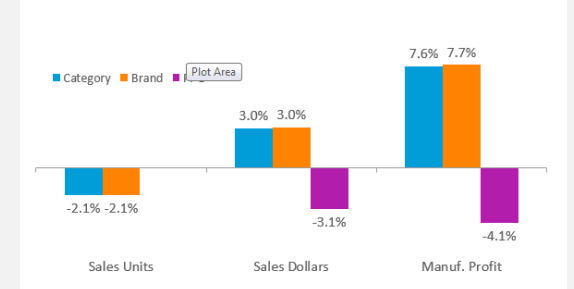
## Thresholds

Are there any key price points that I must hit to avoid losing consumers?

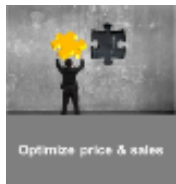


## Base Price Optimization

What everyday price maximizes my volume and profit?







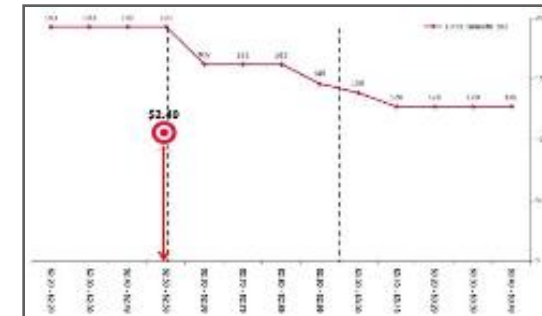
# OPTIMIZE PRICE & SALES | BASE PRICE THRESHOLDS/GAPS

## 3 Price Threshold and Gap

- Pricing thresholds represent psychological unwillingness to pay beyond certain price points
- Proper management of base price threshold can add 2-10% additional sales on the shelf
- Optimize gap vs competition and develop guidelines to stay competitive

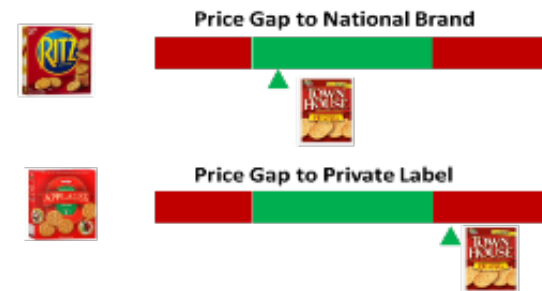
### Thresholds

#### Stay Within Major Price Thresholds



### Price Gaps

#### Stay Competitive vs. Competition








Source: Global Revenue Management – Nielsen Pricing Models Spring 2015








# PROMOTION ANALYTICS MUST ISOLATE LEVERS

## TRACK PROMOTION PERFORMANCE

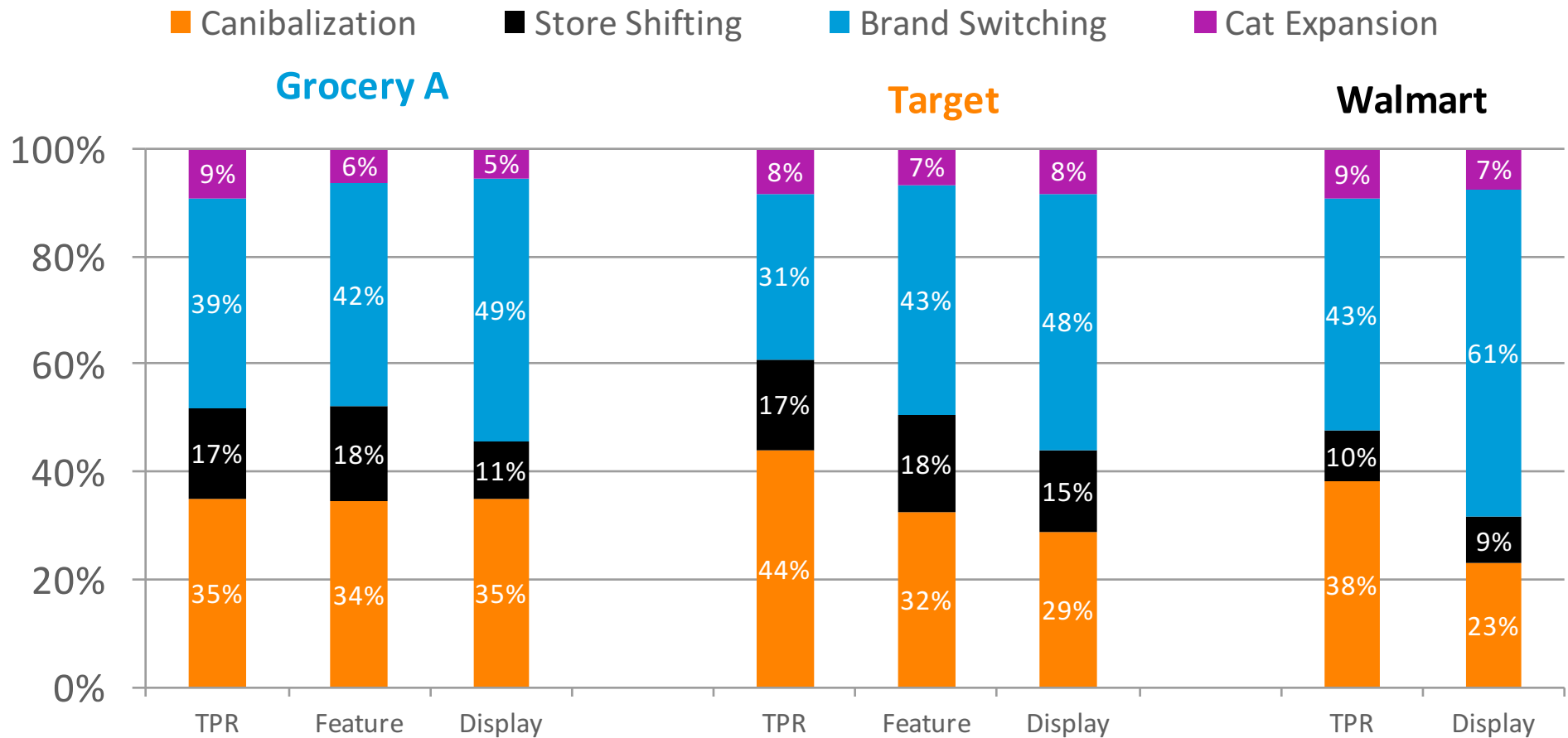
-  **FINANCIAL AUDIT**  
Spending across EDLP, Shopper Mkt, Trade?
-  **TRENDS**  
How has my ROI changed?
-  **MARKET PRICING**  
What is my in-market pricing?
-  **EVENT COMPLIANCE**  
Are my events fully executed?
-  **RETAILER SCORECARD**  
Where do I have the highest ROI?

## SIMULATE FUTURE SPEND

-  **SEASONALITY**  
What is the best time for events?
-  **TIMING & DURATION**  
How long should an event be?
-  **DEPTH OF DISCOUNT**  
What price maximizes ROI?
-  **WIN-WIN EVENTS**  
What events are good for all parties?
-  **TACTICS**  
How do I communicate my offer?



# FORECAST FOR SWITCHING AND CANNIBALIZATION





# COLLABORATIVE ACCOUNT PLANNING YIELDS RESULTS



## HQ: STRATEGY

- Guidelines and Event Library
- Predictive Models



## ACCOUNT: REALITY

- Customer Boundaries
- Initial Event Sequencing



## COLLABORATION

- Live Simulations
- Selling Stories creation

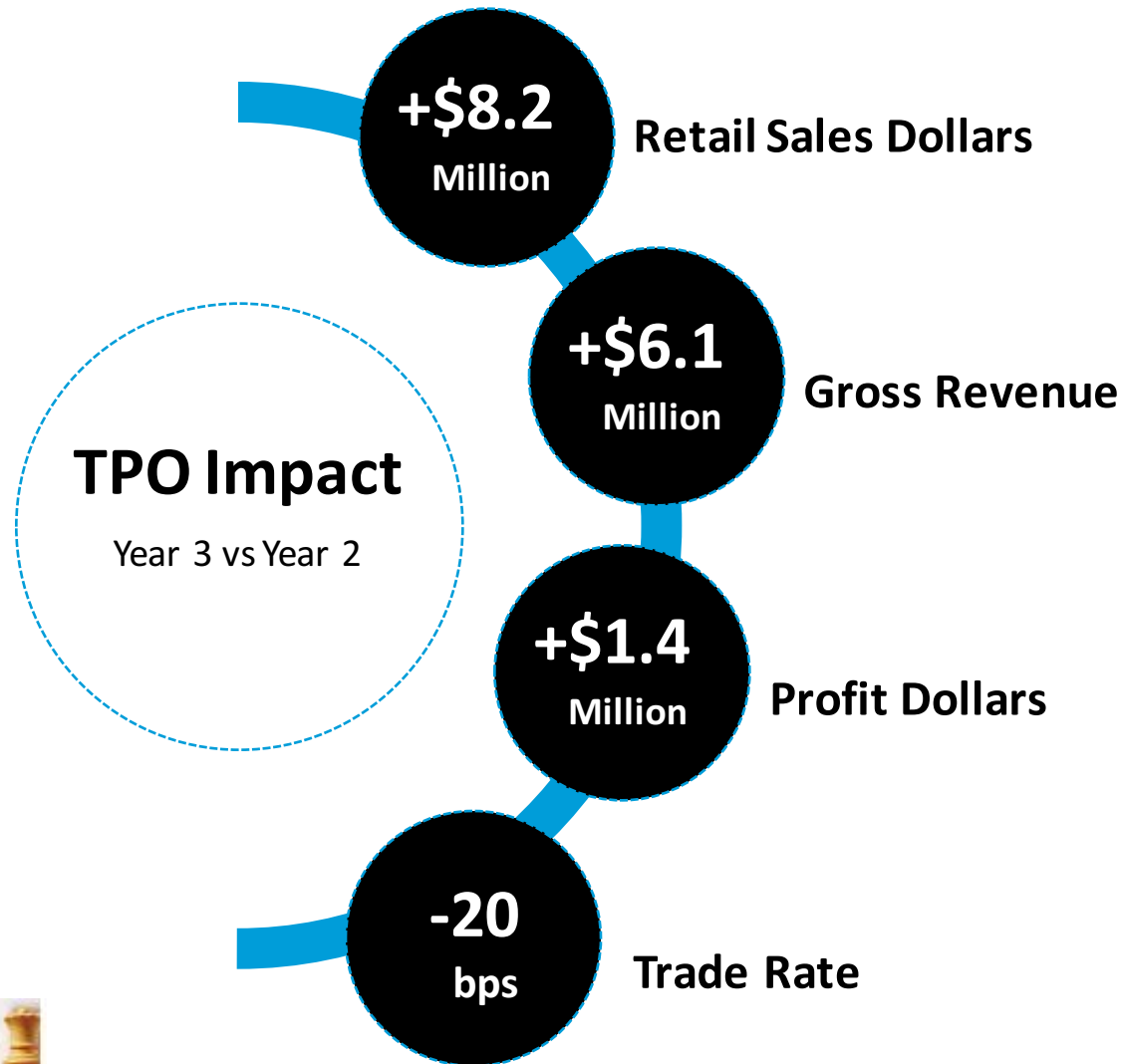


## OPTIMIZED JOINT BUSINESS PLAN



# ACCOUNT COLLABORATION DRIVES BIG RETURN

Base = ~\$200M for optimized customers



# SHOPPER OPTIMIZATION IS NEXT FRONTIER

**Volumetric  
Measurement**

**Financial Return on  
Investment**

**Shopper Response to  
Trade**

## *Promotion A*

**182% lift  
+ 150 cases**

**high purchase requirement  
multiples  
ROI = \$0.82**

reaches only loyal engaged  
shoppers and cannibalizes  
future purchase

## *Promotion B*

98% lift  
+ 85 cases

low purchase requirement  
multiples  
ROI = \$0.68

**encourages new shoppers to  
try the brand driving long  
term repeat**

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# PEOPLE RELATED ELEMENTS ARE TOUGHEST



## Expertise

Leadership  
and  
domain  
knowledge



## Culture

Embed and  
propagate





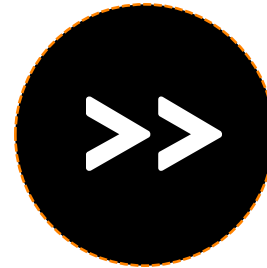
# HELPING DRIVE LEADERSHIP SUPPORT



**Commit**



**Assign top talent**



**Align incentives and process to customers**



**Celebrate and reward progress**

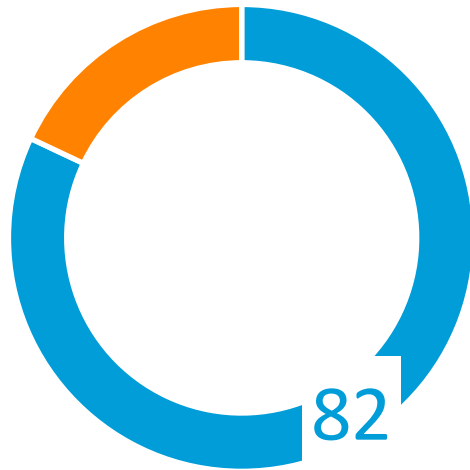
Industry content  
Partner strategy

Some in Tuesday Share Group



# BENCHMARK YOUR ORGANIZATION

% Large CPG Manufacturers with Revenue Management team



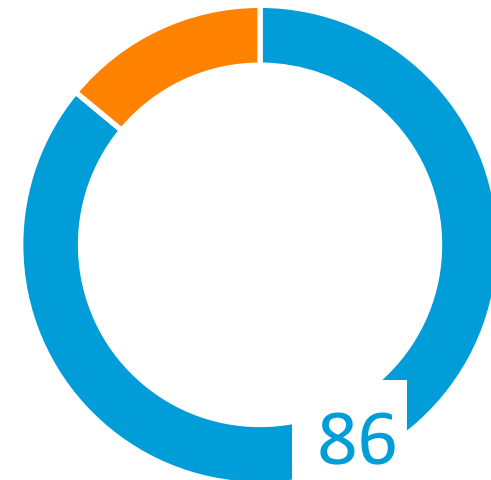
■ Yes ■ No

Source: 19 Nielsen global (large) clients

74% of all surveyed Nielsen clients (46 CPG Mfrs)

What is the general talent profile of associates in revenue management?

% Respondents



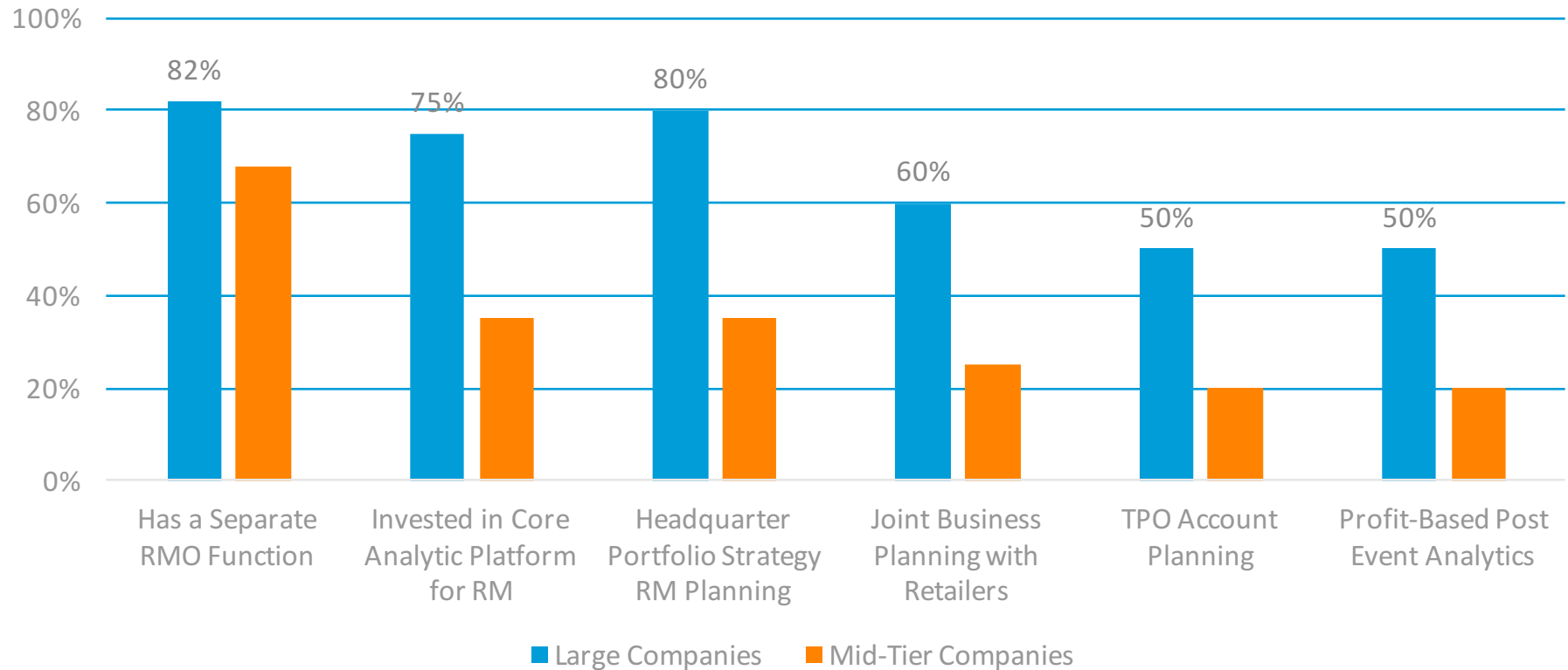
■ Finance ■ Cross Functional\*

Cross functional includes a combination of analytics, finance, insights, and / or sales



# BENCHMARK YOUR CAPABILITIES

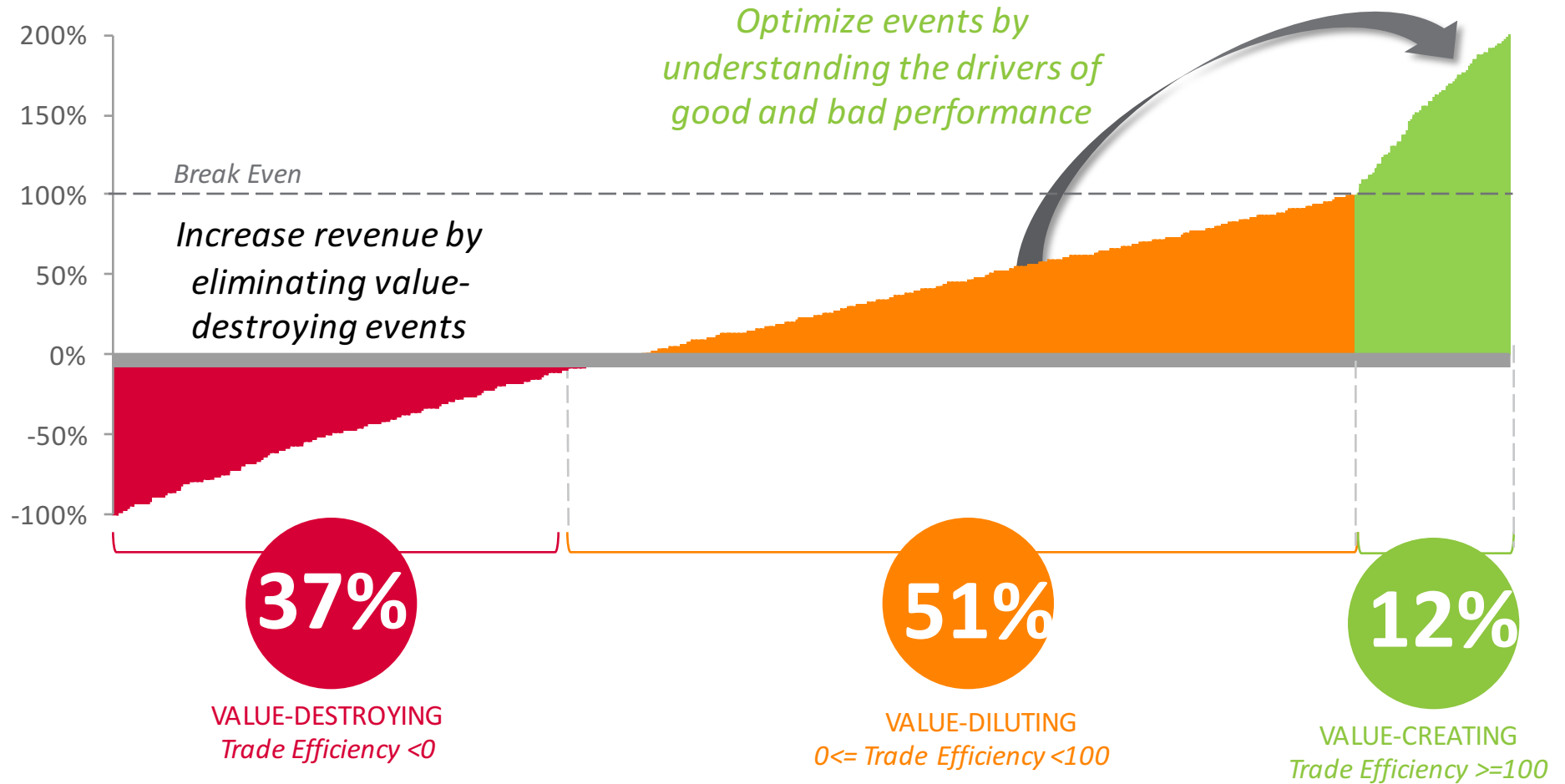
## % CPG Manufacturers with Revenue Management Capabilities



- % with Revenue Management Function is based on Nielsen survey of US clients; Large companies are multi-billion, multiple category companies (n=19), Mid-tier participate in fewer categories (n=27)
- Remaining observations are Nielsen estimates based on experience across over 150 US clients



# BENCHMARK YOUR EVENTS BROADLY



# BENCHMARK @ EVENT LEVEL AGAINST BEST IN CLASS

## Promotion Opportunity Assessment Index – Grocery Channel

Trade lever	Mfr. A	Mfr. B	Mfr. C	Mfr. D	Best in Class
<b>Depth</b>	Most events are run below 30% discount threshold Some high discount offers remain				
<b>Segment</b>	Highest level of Segment A promotions despite lowest return across segments				
<b>Tactic</b>	Strong display support which drives the highest effectiveness across tactics				
<b>Timing</b>	Good support in key winter Holidays Below average support in key Summer weeks				
<b>Overall</b>	Overall promotion effectiveness lags competition by 28% driven by the mix of promotion support across segments				

Conduct this across category portfolio to prioritize



# INDUSTRY PUBLICATIONS PROVIDE CONTEXT



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# LEVERAGE EQUITY ANALYSTS TO GAIN ALIGNMENT

## Goldman Sachs – November 2015 Summary

### PM summary: TBO in focus as industry takes cost cuts beyond zero-based budgeting

#### A large, and largely ineffective pot of money

Despite the importance of trade budgets in the grocery supply chain, the spending remains underappreciated by Wall Street and investors because of its opaque nature. Born during the Nixon administration to provide a flexible inflation buffer for CPG manufacturers in the face of potential price controls, trade budgets quickly evolved into a tool to drive sales and market share through special price deals, in-store displays, and other forms of promotion. Because the money is dealt back to retailers through

“Other Manufacturers have economic incentive to pursue TBO and we believe KHC may give them cover and incentive to act, much like the wave of zero – based-budgeting initiatives launched across the industry in the wake of 3Gs deployment of the practice @ Heinz”

precisely, but we estimate it is a widespread reduction in this area. Conditions for a tipping point are not yet met, but buying rather than selling, we believe. Over time, returns on the investment will generate positive economic value. While third-party surveys indicate that manufacturers and retailers may be under tension.

Systems and processes have been implemented, suggest that efforts to date have been ineffective for change. Our analysis shows that four in five are subsidized, with a one-in-four incremental-to-date. We believe that the expanding focus on the center-store is a key hand.

The deployment of 3G and its takeover of two major programs of roughly 25% of the largest trade budget in the industry.

CPG Food industry at about \$400B and we expect a similar TBO strategy to be deployed. Other manufacturers have economic incentive to pursue TBO and we believe KHC may give them cover and incentive to act, much like the wave of zero-based-budgeting initiatives launched across the industry in the wake of 3G's deployment of the practice at Heinz. We believe PEP and KO have been steadily deploying TBO initiatives as part of a broader revenue optimization initiative.

#### A benefit for Food & Beverage, but not unequivocal or even

While we see a sizable opportunity for the CPG industry overall to curtail trade budgets, we appreciate that the investments can play a valuable role in building awareness, interest and trial of some products. Curtailment also brings challenges of competitive and

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Goldman Sachs Global Investment Research

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# LEVERAGE EQUITY ANALYSTS TO GAIN ALIGNMENT

## RBC Summary – March 2016

### Wading into a deep dark pool of opportunity

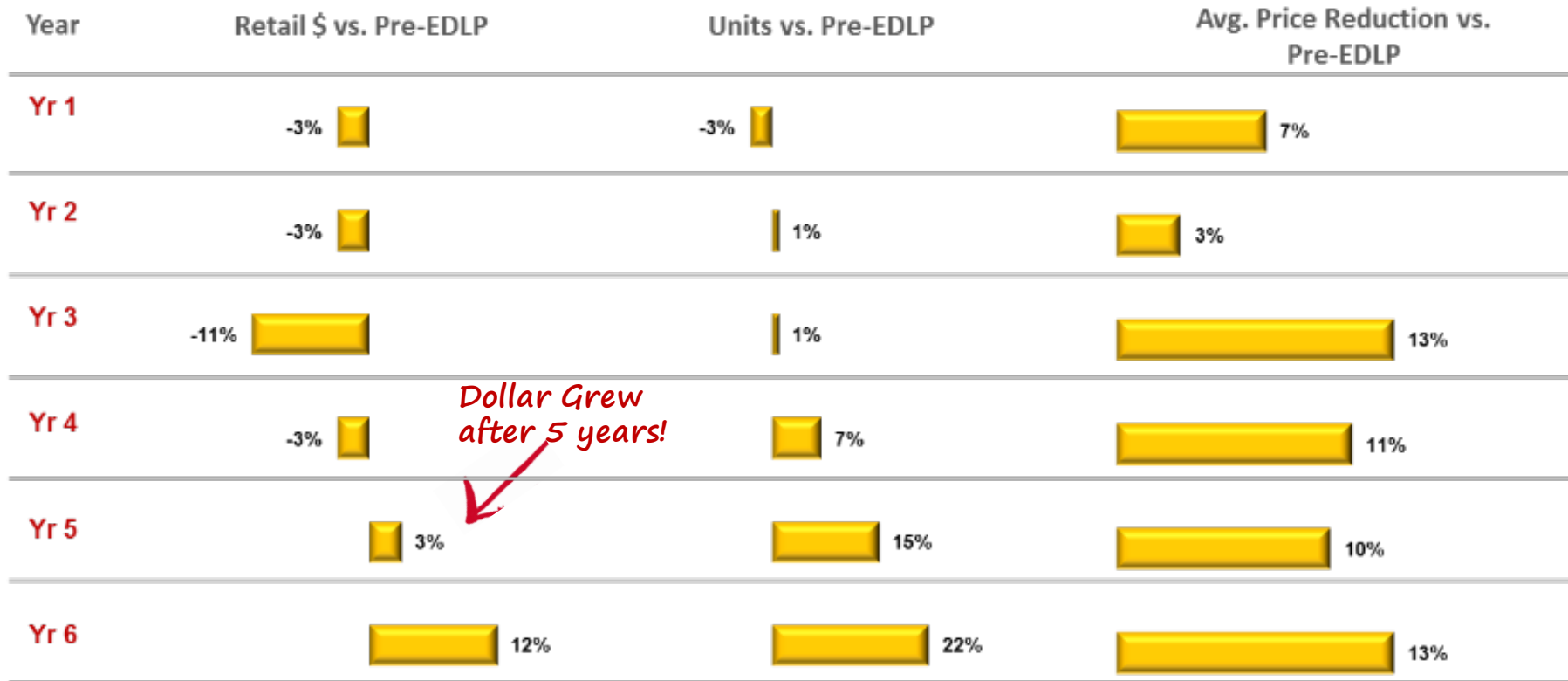
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- Promotion spending is huge – and can be bigger than profit or SG&A
- Spending has doubled over the past two decades
- Companies are gearing up to become more efficient – the new ZBB
- The beginning of a multi-year journey – but don't expect companies to tell you how big an opportunity
- Potentially a 20%-60% boost to food sector earnings over the next five years





*A number of tweaks were made to EDLP strategy to make it work.....*



### Key Takeaways:

- Initial growth in base sales may not make up for incremental losses
- Success in EDLP may take awhile.....patience is needed!
- Loss of pantry loading and HH penetration

Source: Global Revenue Management Analysis | Retailer A



## LEVERAGE YOUR PEERS

This work gave us much needed insight into our overall pricing strategy and how to best optimize in market. Exceptional value for the money, especially in light of the incremental sales we expect to generate from implementing the recommendations

- James Mosely, VP Consumer & Commercial Insights  
Bacardi

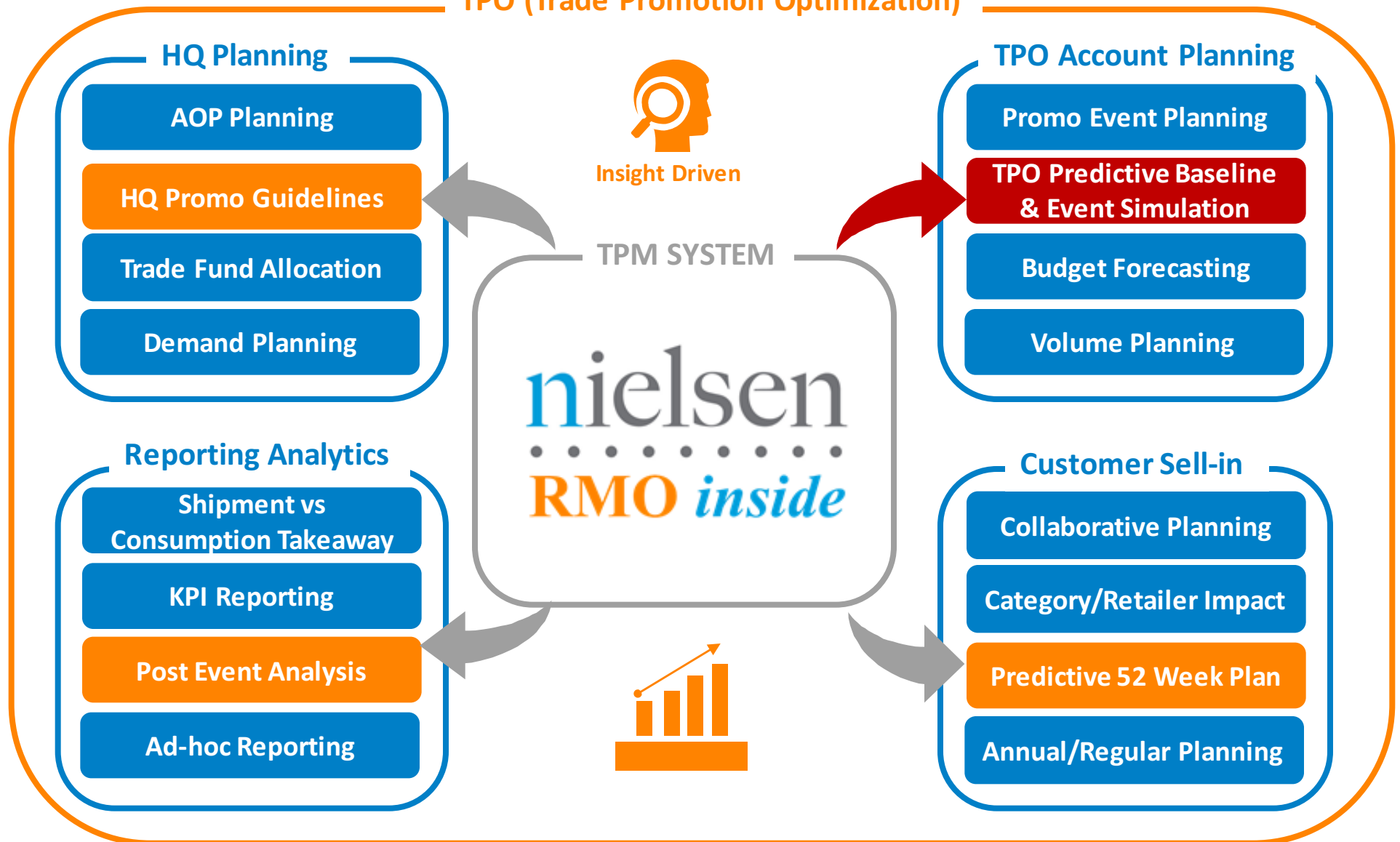


# COLLABORATE: SEEK A PARTNERSHIP ECOSYSTEM



# ADDING PLANNING DEPTH TO TPM PLATFORMS

## TPO (Trade Promotion Optimization)



# CALL TO ACTION/OPPORTUNITY

Analytics depth is critical

Executive support is achievable

Collaborative Partner System can drive greater synergies



nielsen  
.....

AN UNCOMMON SENSE  
OF THE CONSUMER™

