

The future direction of trade promotion — why previous approaches may no longer be enough. What's next?

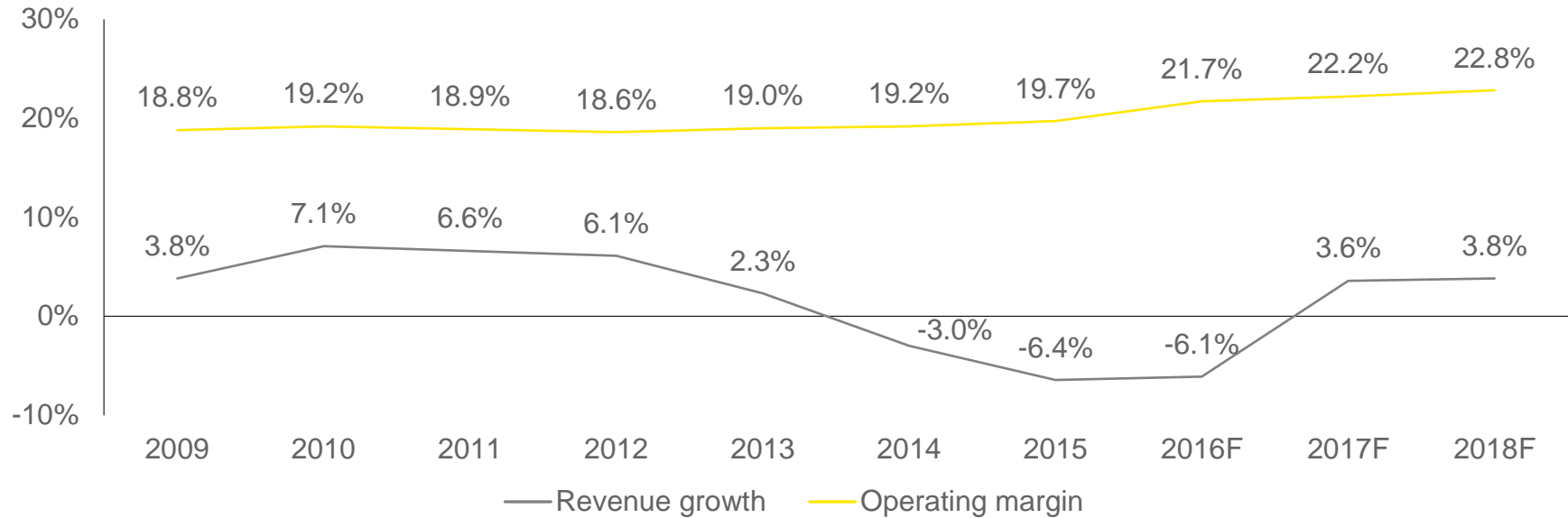
Jean-Albert Nyssens, Partner EMEIA



By the end of this session, you will ...

- ▶ Better understand the trade promotion “conundrum” facing CPG companies
- ▶ Hear what we see as emerging trends and innovation in TPM/TPO
- ▶ Get reactions from a few companies on if, and how, they will behave differently in the future

Historical growth and operating margin performance



75%

say that it has become harder to sustain or grow operating margins

74%

say they need to make a significant change to maintain margins

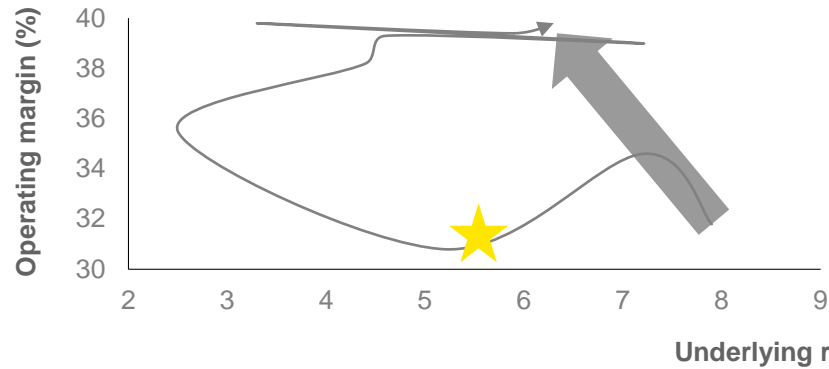
Source: S&P Capital IQ. Chart shows weighted revenue growth and EBITDA margin performance of the top 50 CPG (food, beverage, HPC and tobacco) companies as ranked by revenues in 2014

Source: EY Margin Unlocked: integrated margin management to deliver breakthrough performance in consumer products

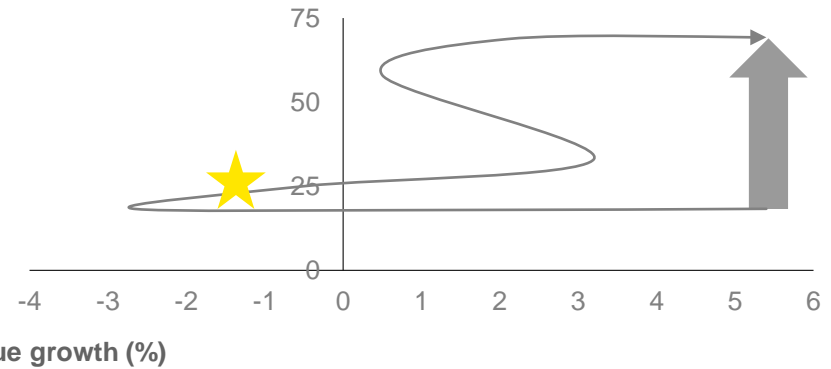
Growth and margin trends with ZBB

Impact of “cost-cutting” initiatives* on growth and margin (select CPG companies)

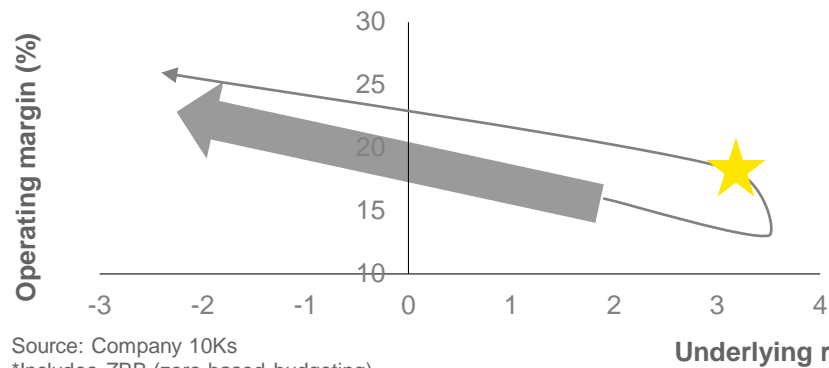
A, FY06–15



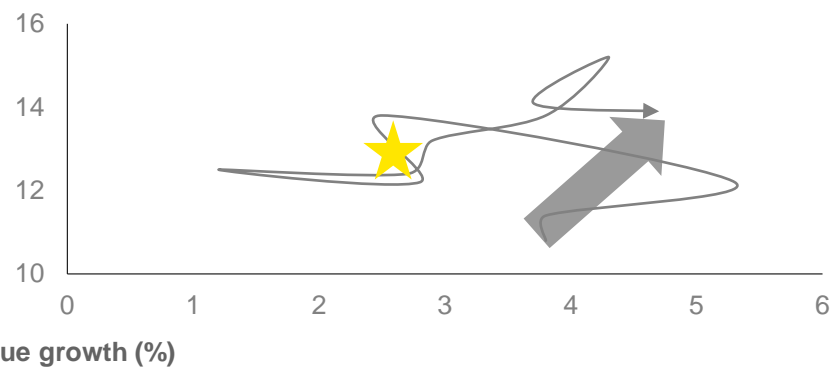
Company B, FY08–15



Company C, FY11–14



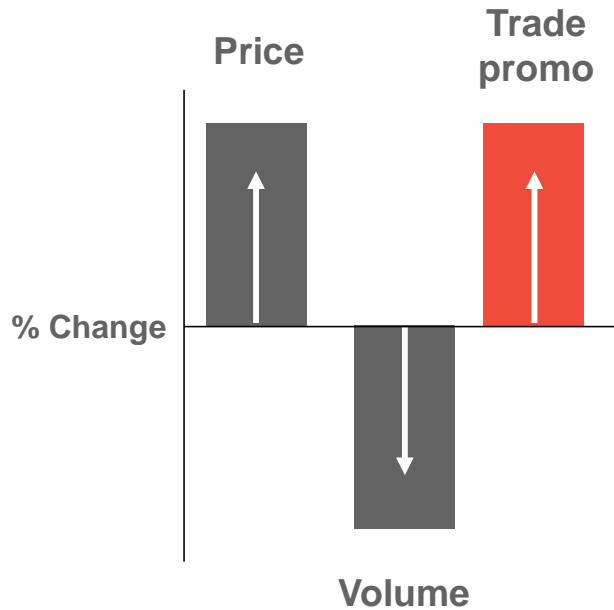
Company D, FY13–15**



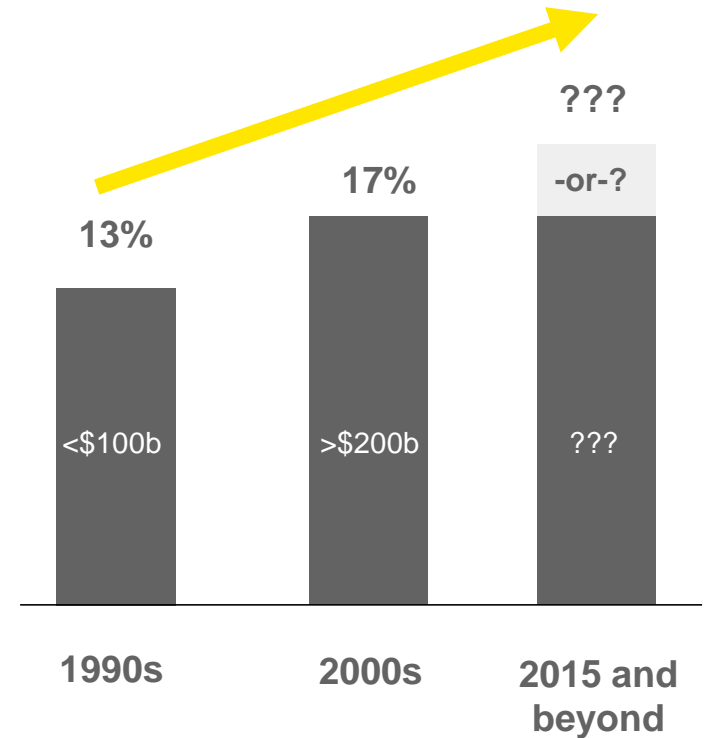
Source: Company 10Ks
 *Includes ZBB (zero-based budgeting)
 **Quarterly figures

The trade promotion “conundrum”

Current trends



Trade promotion (% of gross revenue)



Source: EY

Trade promotion — the next “cost-cutting” frontier

“Cost-cutting” actions*

Using black/white and two-sided printing, copies, business cards, etc.

Reducing use of corporate jets and first class

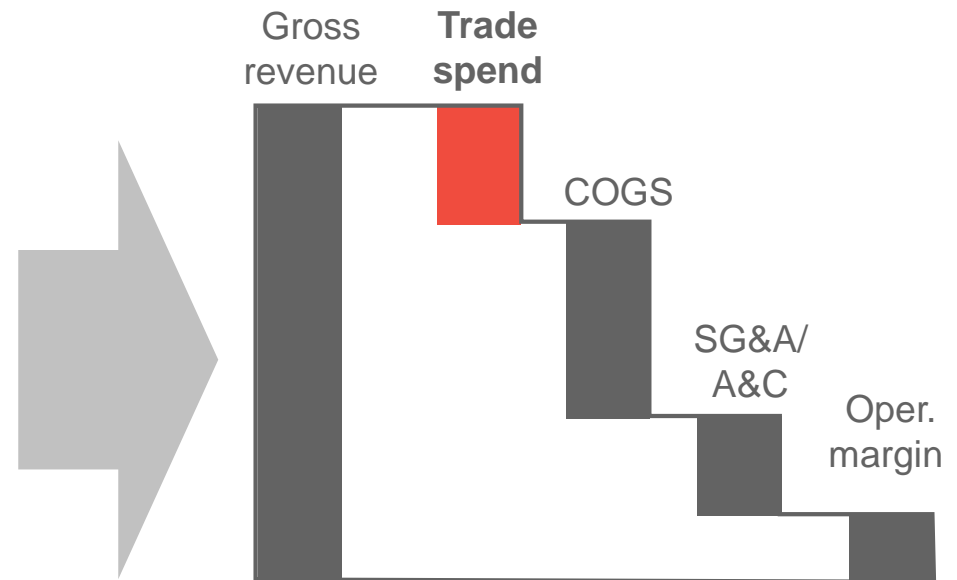
Eliminating individual offices

Shutting down factories

Reducing client entertainment

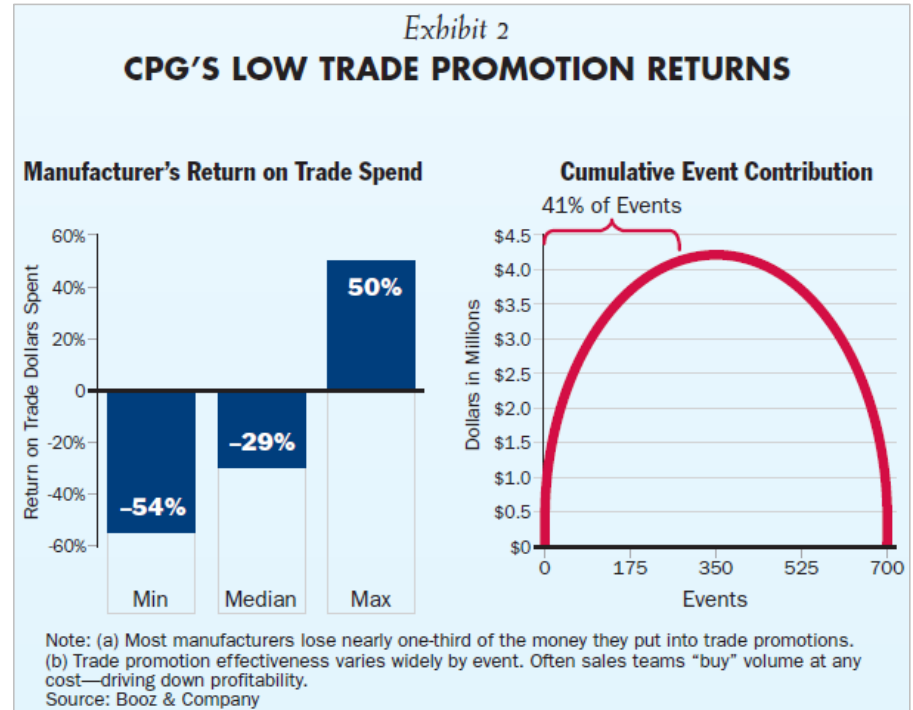
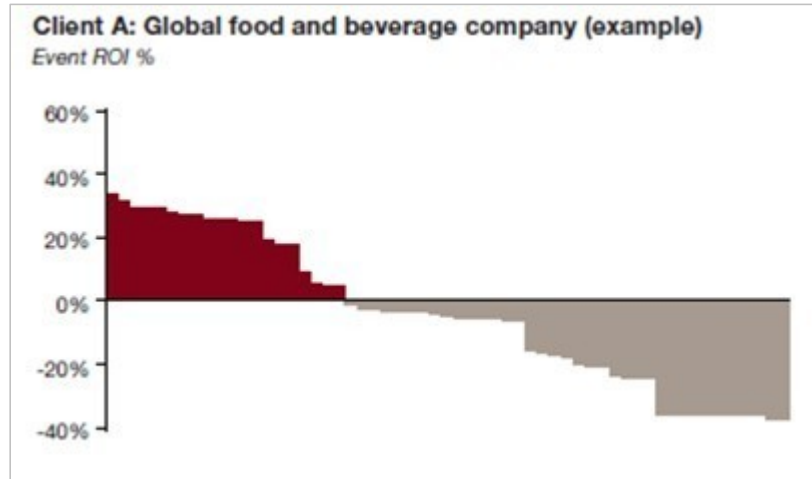
Eliminating management layers and downsizing office space

Profit waterfall



*Source: The Wall Street Journal

Many analysis point to a large part of the money spent being ineffective




... and pressure is mounting from Wall Street

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 understood by investors, and returns are increasingly negative. A change agent has arrived via the takeover of Heinz and Kraft by cost-cutter 3G. We see a tipping point to cut back trade spending, and in this report, we introduce a framework for analyzing the categories ripe for Trade Budget Optimization and the potentially significant P&L impact for manufacturers and retailers.



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The Goldman Sachs Group, Inc.

Traditional approaches — a good start but not enough

Processes

- ▶ Simplification and standardization
- ▶ “Closed-loop” planning/execution/analysis

Tools

- ▶ TPM and TFM solutions
- ▶ TPE and TPO “pilots”

Resources

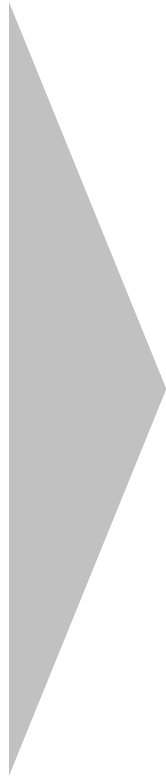
- ▶ Trade marketing organizations and “centers of excellence”
- ▶ “Controllable” KPIs/measures



**A
really
good
start ...**

Getting the balance right for the future

**... But
more is
needed**



- ▶ Focus on margin/ROI (while minimizing impact on volume) — find “optimal” point
- ▶ Embrace TPO/analytics (beyond “pilots”)
- ▶ Be disciplined and make tough decisions to cut unprofitable trade spend (but do jointly with partners)
- ▶ Go beyond trade promotions — i.e., look at all customer spend (terms, rates, etc.)
- ▶ Balance short-term profitability with long-term capabilities to sustain results

Key trends are to go deeper, faster and broader

Revenue management is the organizational capability that optimizes commercial levers to drive sustainable, profitable revenue growth

	Trends	Examples
1	Establish above-market capability	Data and analytics Center of Excellence
2	Provide greater coverage and visibility of profitability	Visibility of accurate P&L at customer/product level
3	Establish consistent net revenue management capability	Standard capability by market archetype
4	Align commercial, finance and supply chain numbers (“one number mentality”)	Integrated business planning
5	Acknowledge magnitude of change required to relentlessly focus on in-market execution	Assessing current gap to leading class capabilities
6	Technology enabled	Synchronized data-led decision-making instead of gut-feel
Faster, better decisions aligned cross-functionally with improved governance and visibility		

Technology helps to manage trade investments and promotions better

1

One-to-one promotions enabled by big data and mobile technology

2

A/B testing of different promo mechanisms

3

Crowd-sourced checking of in-store execution

4

Centralized and/or outsourced data-analytics centers

1

One-to-one promotions through big data are not new ...



Promotions on self-scan
Delhaize



Catalina promos on receipt
Multiple retailers



Totem at store entry
Caprabo

1

... but take a new dimension with mobile technology



The Coupons App



YOU Technology acquired by Kroger



**Get Savings On The Go
Download Today!**

Apple Store Google Play

Also available on [Kindle Fire](#)

- Create your shopping list, then sort it by store aisle for faster shopping.
- Scan UPC to check for offers and add items to your list.
- View just for U® offers and weekly ads from anywhere.

Safeway's Just4U

2

A/B testing of promotions before deploying in brick and mortar

meijer

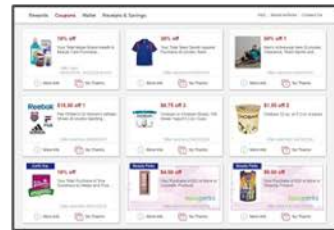
HEAD TO HEAD TESTING

RAPID TEST & LEARN

DEPLOY WINNING OFFER AT SCALE



mperks



Develop multiple offers

Test on load-to-ID assets

Deploy winners at scale (in-store and online)

2

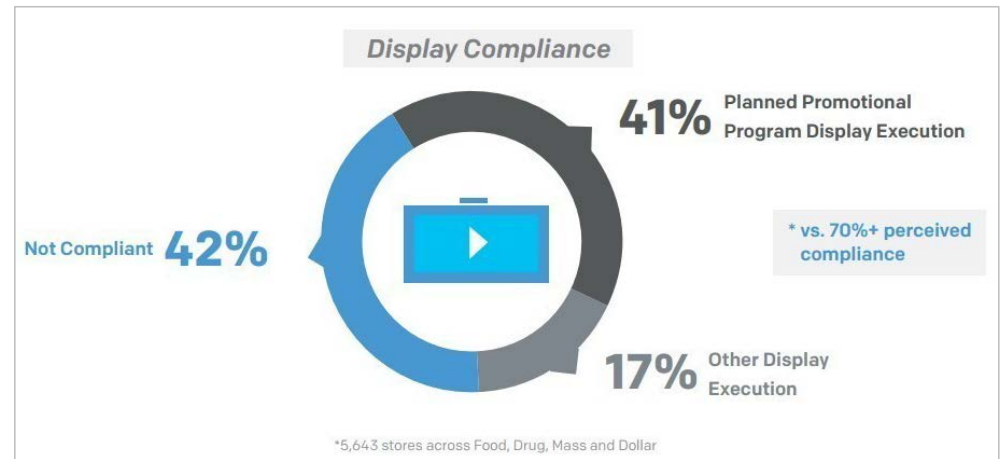
Offer innovation uncovers offers that outperform the traditional ones

Real example — SKU X, Channel Y (U.S.)

eversight



In-store execution of promotions and displays is often lackluster



Source: POPAI and Quri research, 01/2015

3

Crowd-sourced in-store execution with image recognition

Streetspotr



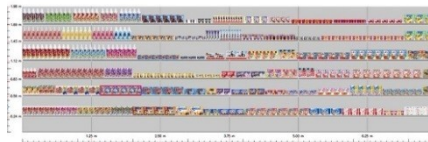
Gigwalk



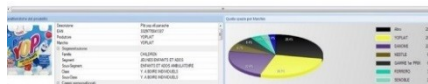
Quri



PLANORAMA



ShelfSnap



► Crowdsourced

- Scaled, diverse and flexible crowd-sourced community workforce
- Covering several markets and geographies
- Possibility to have your own workforce
- Rapid time to market, engagement and results in hours

► Ability to define custom tasks

- Out-of-stock
- Own/competitor price analysis and reporting
- Sample size analysis
- Display checks (primary and secondary displays)
- Planogram, Shelfshare, facing, listing

► Technology driven

- Instant messaging with field force
- GPS, time and date verified results
- Quantitative and qualitative data capture
- Barcode/Rfid scanning, Image recognition.

4

Complex tasks without need for customer proximity are being centralized

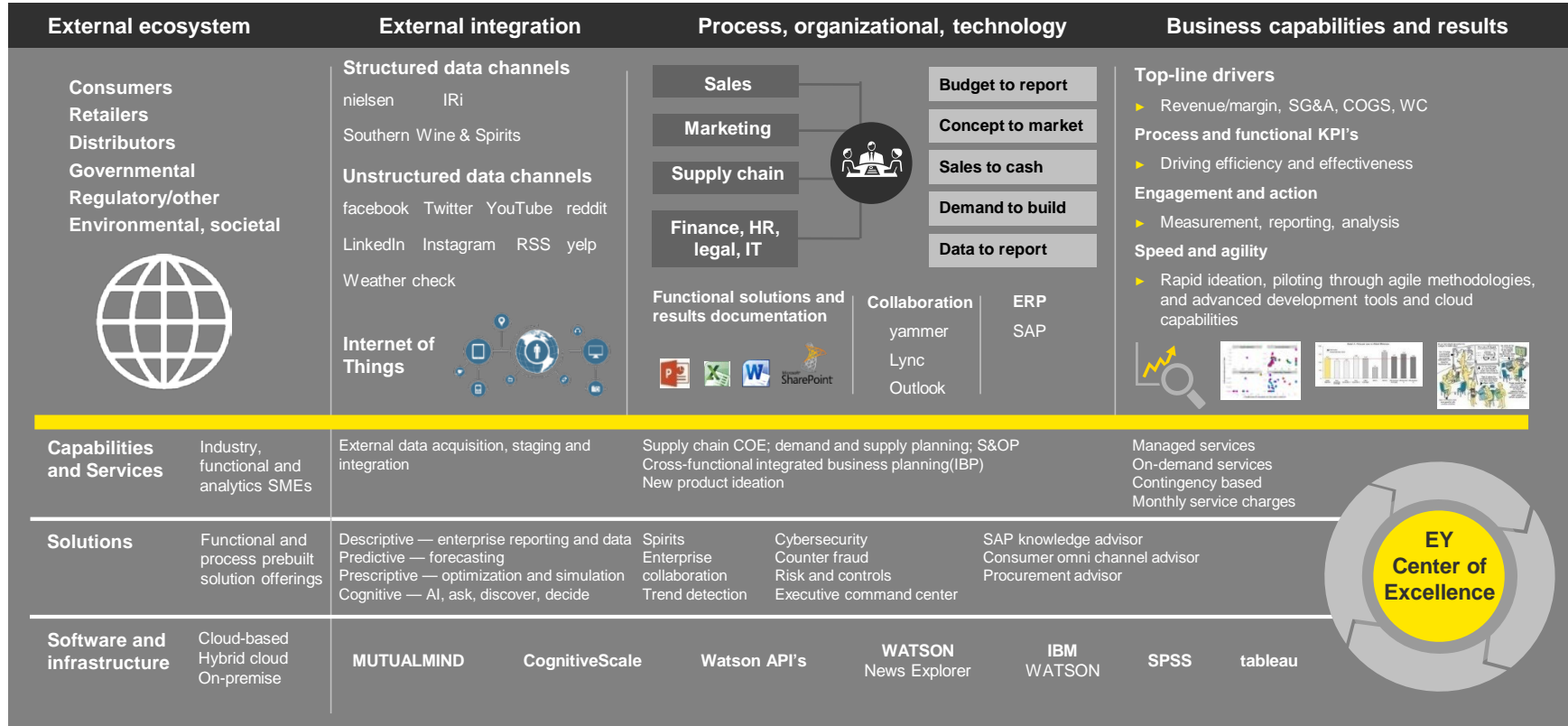


Source: The New Case for Shared Services, EY 2014

4

Centralized data-analytics centers help build capability

Example: EY enabling a comprehensive end-to-end Center of Excellence



Panel introduction



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