CRACKING THE CODE ON EUROPEAN BEST-IN-CLASS TRADE PROMOTION

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MAY 11, 2016, GLOBAL PROMOTION OPTIMIZATION SUMMIT, BRUSSELS

AN UNCOMMON VIEW OF THE CONSUMER

Global Leader Consumer Insights

- Operate in over 100 countries measuring what consumers watch and buy
- Work through direct retail relationships and sales audit to measure sales
- Data, Measurement + Advanced Analytics + Software + Service

Four Practices, End-to-End Understanding of the Consumer

- **Innovation** – Drive new products based on consumer demand
- **Marketing Effectiveness** – Understand the overall spending on advertising and sales
- **Sales Effectiveness** – Drive performance through the sales process
- **Consumerization** – Drive programs down to the consumer segment

Sales Effectiveness

- **Planning**:
  - Revenue Management and Optimization (Price & Promotion)
  - Assortment & Space Optimization
- **Activation**:
  - Store execution and on shelf availability
  - Post-event analytics

MULTIPLE PROGRAMS DRIVE PERFORMANCE

BRAND MARKETING

PRICE, PROMOTION AND ASSORTMENT

NEW PRODUCT PERFORMANCE

ON SHELF AVAILABILITY

CONSUMER ENGAGEMENT

NIELSEN DATA SCIENCE LEADS THE INDUSTRY

TOP TALENT

- **Largest Global Data Science Organization** with more than **900 associates**
    - **Embedded in every Solution**
    - Present in **100 countries**
- More than **50 PhDs** rivals top university mathematics departments
    - **Greatest Available Industry Data**
    - **Leading experts in** statistics, neuroscience and behavioral studies
- **Leaders in Research: (2015 Activity)**
    - 12 science publications,
    - 43 patent submissions &
    - 50 professional conference presentations
- Nielsen Innovation is accelerating

NETWORKING

- Taps into new expertise/research to ensure we are on the cutting edge of key areas; **research collaborations**, industry task force involvement and sponsorship of **science symposia**
- Partners with industry organizations such as the **Council for Research Excellence** to exchange latest ideas and to solve mutual problems
- Works with research universities around the globe such as **University of Chicago**, **Oxford University, National University of Singapore** and **University of Mumbai**
- Provides statistics for **White House** and **U.S. Consumer Confidence Index**

SIGNIFICANT INVESTMENTS ARE MADE

Globally, over half a trillion $ is invested annually in trade promotion

$500,000,000,000

Nielsen Proprietary 2016 Global Benchmark Analysis

MEASURE & MODEL GLOBAL CONSUMER BEHAVIOR

Analytics Platform – Big Data, Models, Access

Building a Common Data Environment – *Granular Data*

Over 100 countries sales data loaded into the environment

Standardized data model for all countries and outlets

Common services for access and processing

Applying Data Sciences on Global Scale

Promotional Benchmarks { US, CA, GB, FR, ES, IT, DE }

Core Price & Promotion Models { US, CA, GB, FR, ES, IT, DE }

Assortment models to derive incrementality *

On-Shelf Availability *

* Not yet broadly available; due out in 2016

TRADE PROMOTION BENCHMARK DATABASE

- The largest global benchmarking program ever conducted.
- Market coverage: US, Canada, France, Germany, UK, Italy and Spain
- Data collection started Q1 2012, updated quarterly

331
CPG CATEGORIES

4.9MM
GTINs

93MM
2015
EVENT WEEKS

810B
2015
TOTAL RETAIL SALES

COMPREHENSIVE PROMOTIONAL BENCHMARKS

Now with two years of results.

- Market-wide analysis of promotional performance
- Understand performance variation (Trade Efficiency) and identify best-in-class promotions
- Built using granular (store week GTIN) data
- 331 Categories across 15 departments
- Covers $810 billion annually in NA & Top 5 EU markets' retail sales across all stores (excluding Walmart, Carrefour, and Discounters)
- Almost 5MM GTINs and over 93MM annual events analyzed

Already the most comprehensive study of promotions yet conducted by anyone

NORMATIVE FRAMEWORK TO MEASURE RETURN

Robust approach provides rich promotion insights

1 Isolate Events

- Identify promotion weeks based depth of discount vs. everyday price

2 Build a Calculation Framework

- Incremental Sales = Total Sales – Baseline
- Incremental Cost = Direct Trade Expense + Incremental COGs
- Trade Return = Incremental Sales – Incremental Cost

3 Derive Promotion Costs by Applying Industry Standards

- Manufacturers pay 80%-90% of Discount
- Standard Cost for COGs, Feature & Display

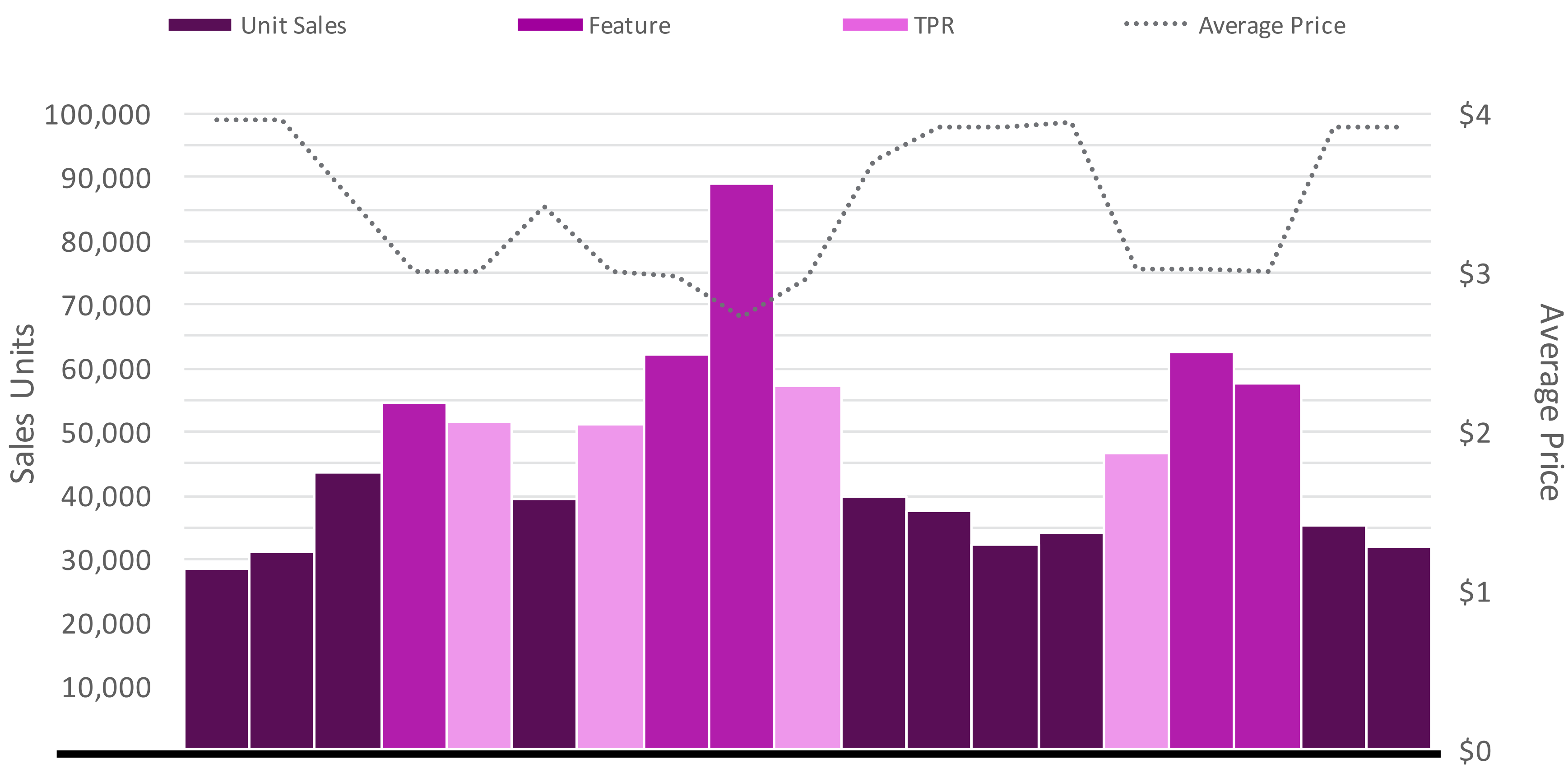
4 Calculate Key Efficiency Metrics for Analysis

- Trade Efficiency = Trade Return / Dollar Invested
- % Sales on Trade

EVENTS IDENTIFIED BASED ON SALES AND CASUAL DATA

Sales and Event Examples:

Events are categorized based on promotion type, depth, and use of holiday timing



CONTINUOUS PRICE AND PROMOTION MODELS

- The largest set of global models ever estimated.
- Country coverage: US, Canada, France, Germany, UK, Italy and Spain
- Models currently cover data from January 2014 to March 2016.

331
CPG CATEGORIES

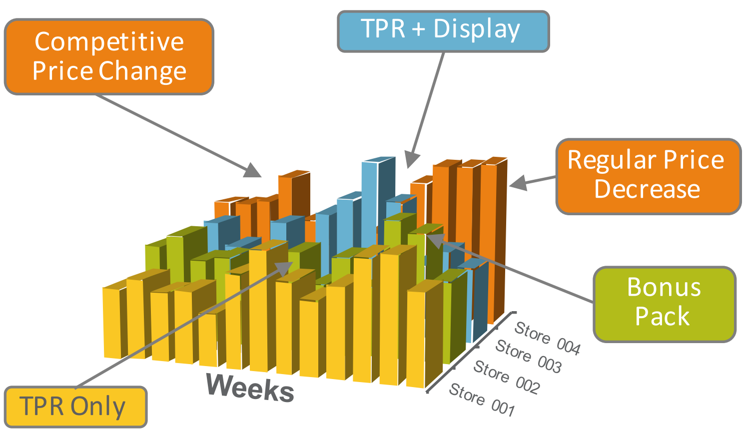
4.9MM
GTINs

1.6B
COEFFICIENTS ESTIMATED

PROPRIETARY ELASTICITY ANALYTICS

Nielsen uses store level sales and causal data to feed our econometric pricing and promotion models to deliver the most accurate results

PROPRIETARY DATA ACCESS



- Control for variables that differ within a market (i.e. distribution, price, in-store support, etc.)
- More accurate modeling of consumer response and higher model confidence

INDUSTRY LEADING ANALYTIC APPROACH

Sales = f (Own Regular Price + Own Regular Price vs Comp. + Own Promo Price + Own Promo Activity + Comp. Promo Activity + Seasonality + Store Effects + Random Term)

ABSOLUTE ELASTICITY + RELATIVE ELASTICITY = TOTAL ELASTICITY

- Isolates impact of a price change on sales, independent from other variables such as seasonality, distribution, etc.
- Optimize price and other promotion variables together to create the best plan

CORE PRICE AND PROMOTION MODELS ENABLE

Scenario planning, optimization and sales decompositions.

Components addressed by these models:

Acting on Self (Non-competitive):

- Regular price elasticity (and thresholds)
- Promoted price elasticity (and thresholds)
- Promotion mechanic lift – Feature, Display, Special Pack
- Promotion offer types – e.g. Multi-buys

Acting on Others (Competitive):

- Regular price cross-elasticity
- Promoted price cross-elasticity
- Promotion cross-impacts
- Distribution cross-impacts

b

WHAT HAVE WE LEARNED?

WE ALL KNOW PROMOTIONS CAN BE INEFFICIENT

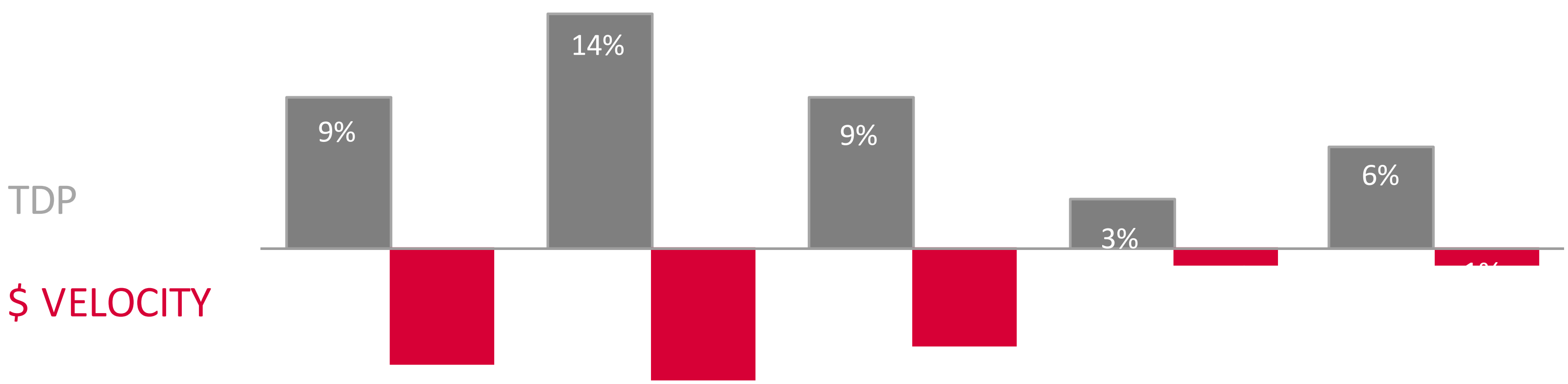
The majority of trade promotion events don’t break even

of promotions globally

DON’T BREAK EVEN

CURRENT SALES PRACTICES LEAVE OPPORTUNITY

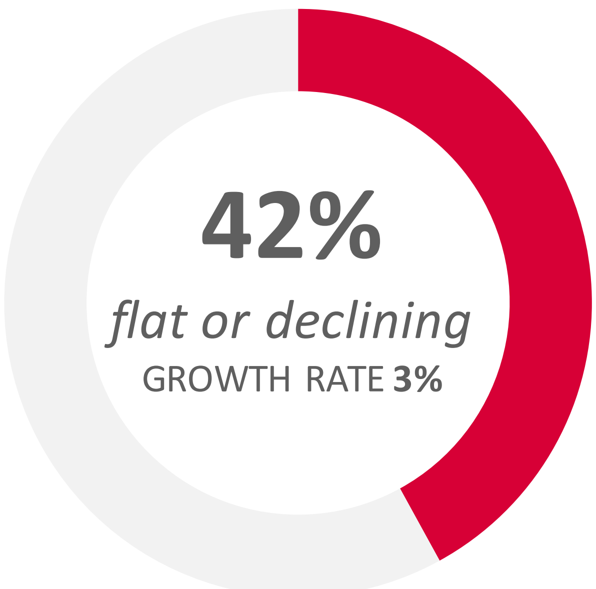
sales velocity is declining



~8% (in)efficiency

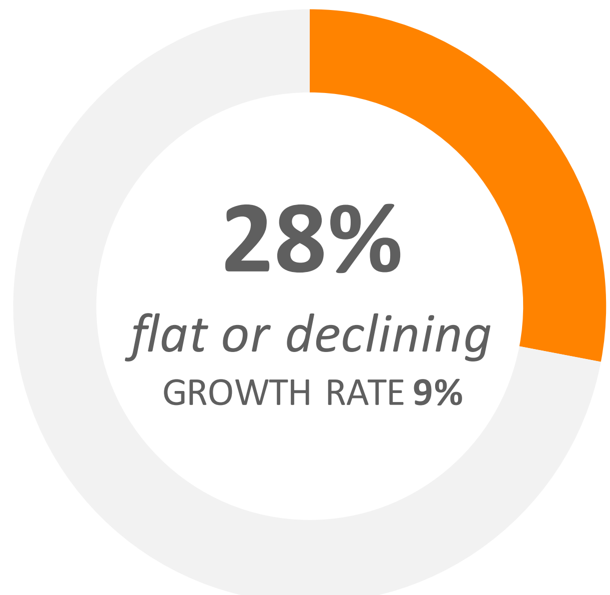
LARGE MANUFACTURERS AREN'T KEEPING UP

LARGE MANUFACTURERS



VS

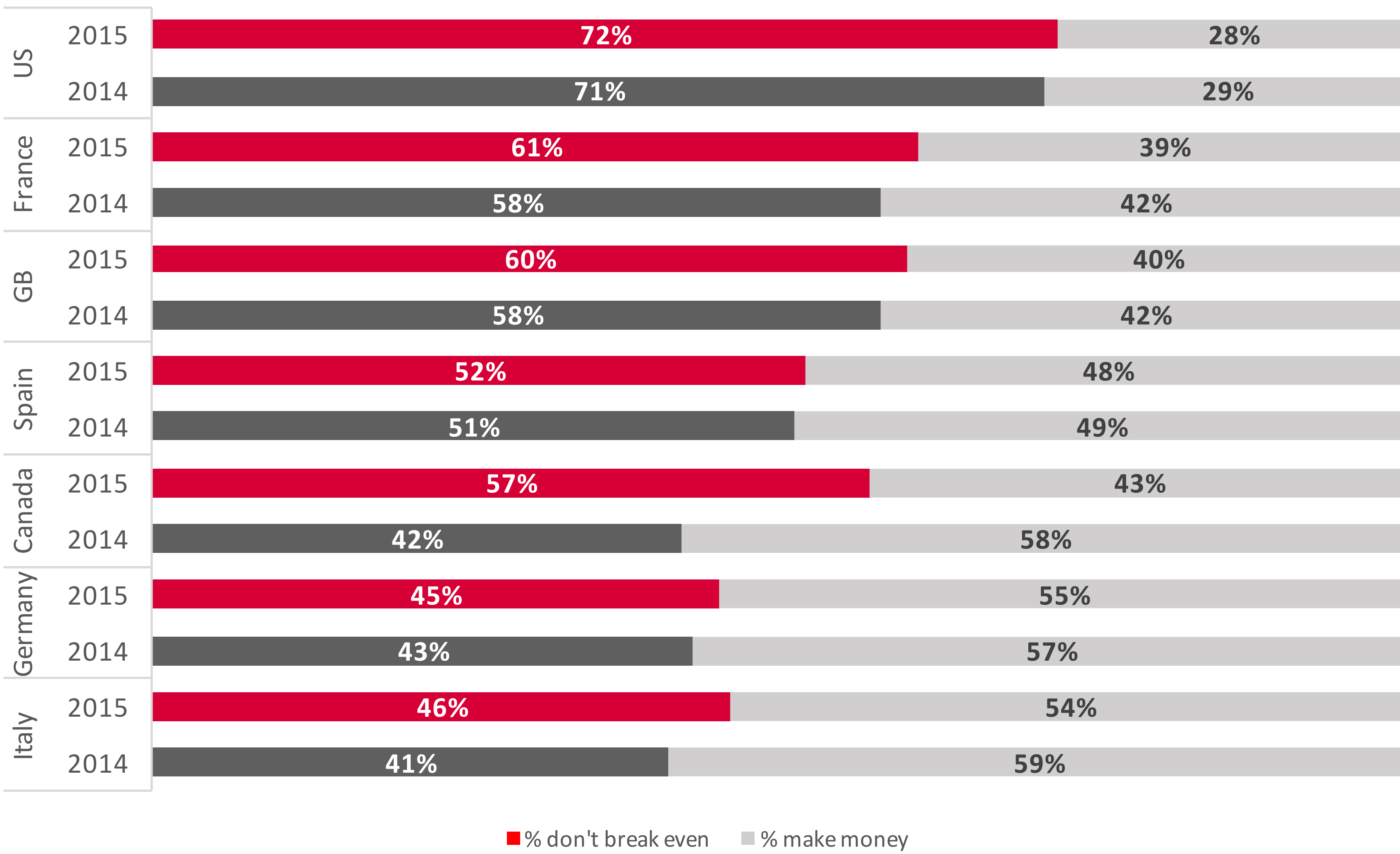
MIDDLE-MARKET MANUFACTURERS



Source: Nielsen Retail Measurement Data, 4; CAGR May 2010-2015

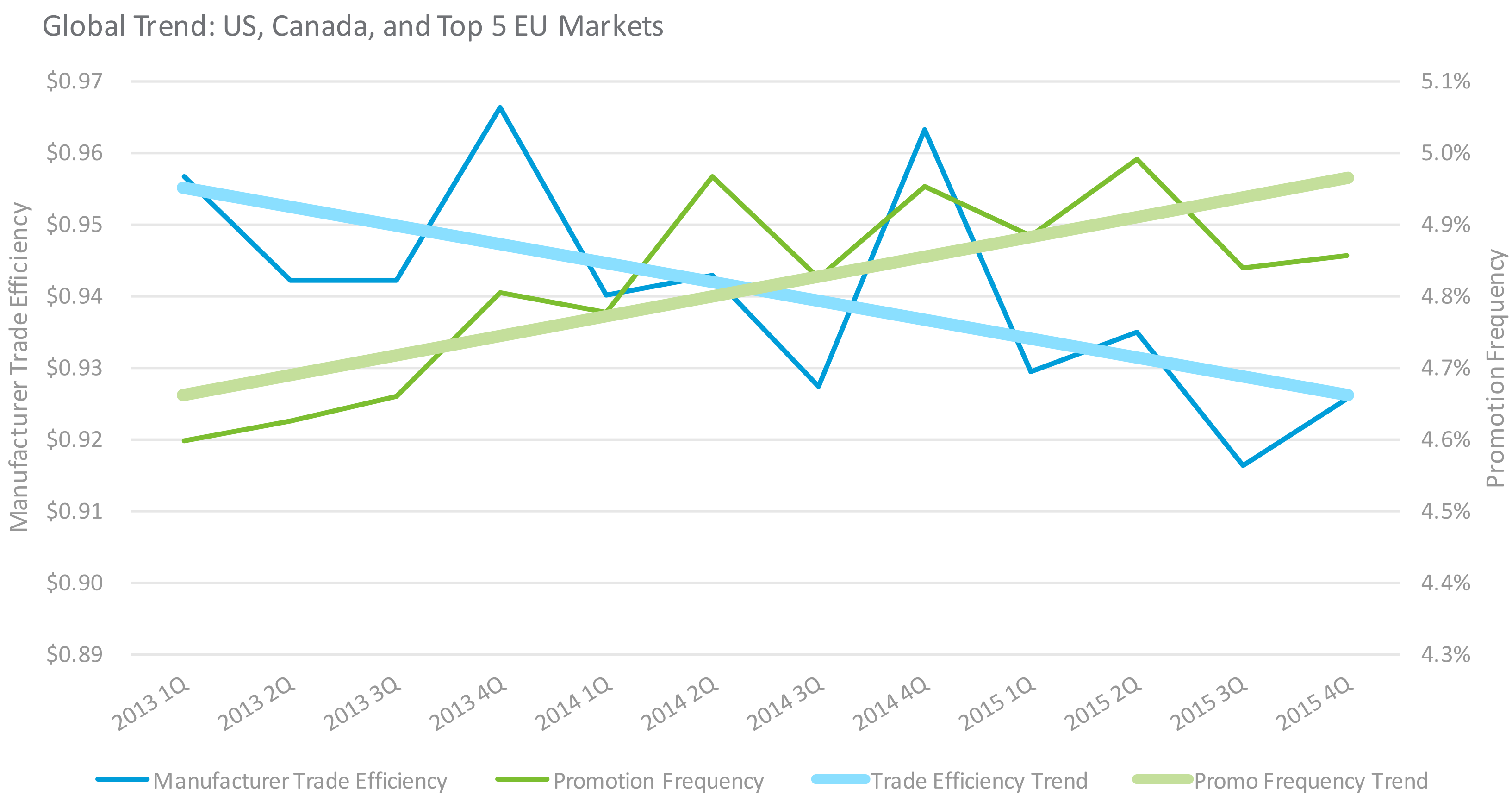
EVERY COUNTRY HAS ITS WINNERS AND LOSERS

No Country is showing year over year improvements.



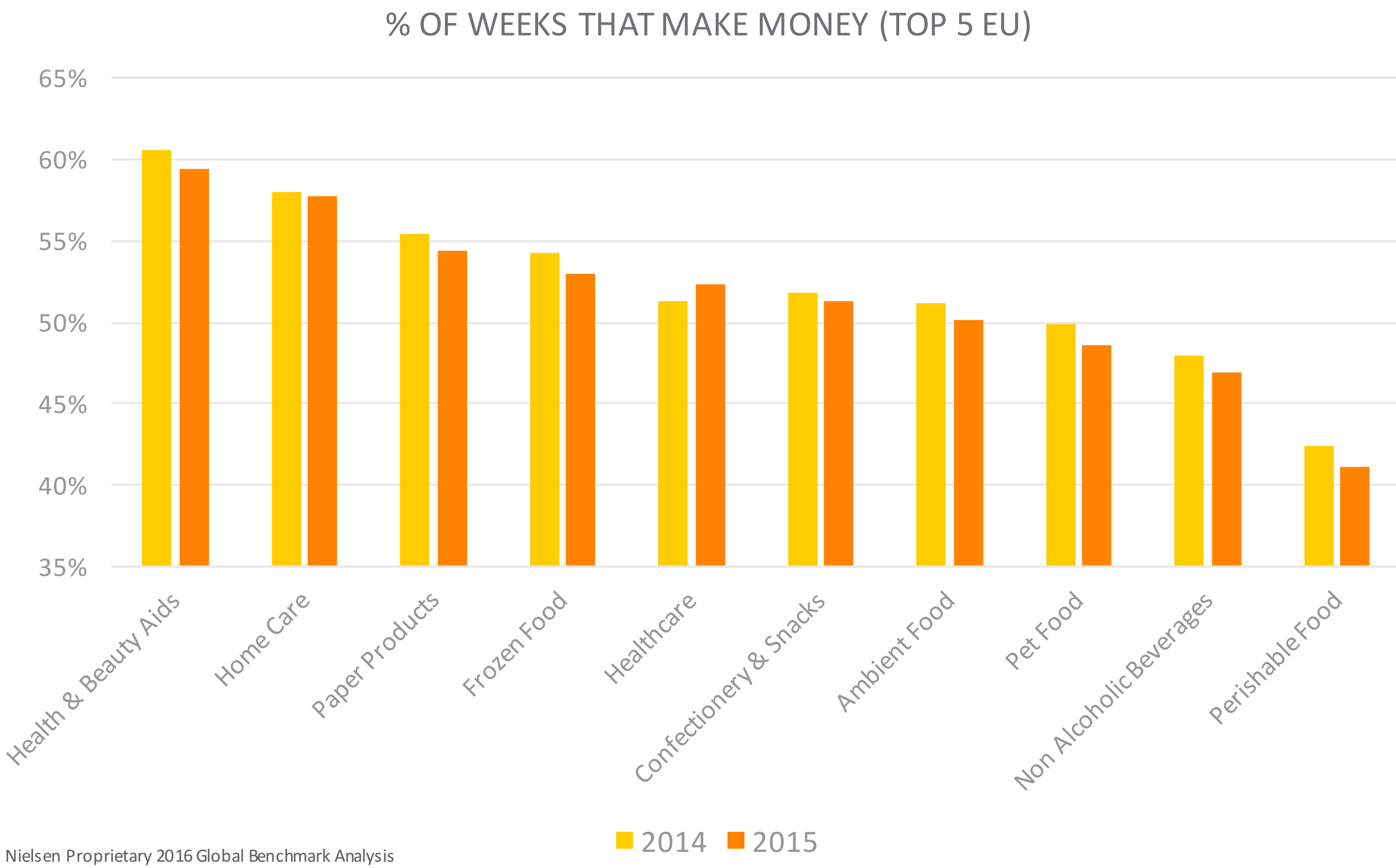
TRADE PROMOTIONS INCREASE WHILE ROI DECLINES

Promotion Frequency and Trade ROI Trend – 2012-2015



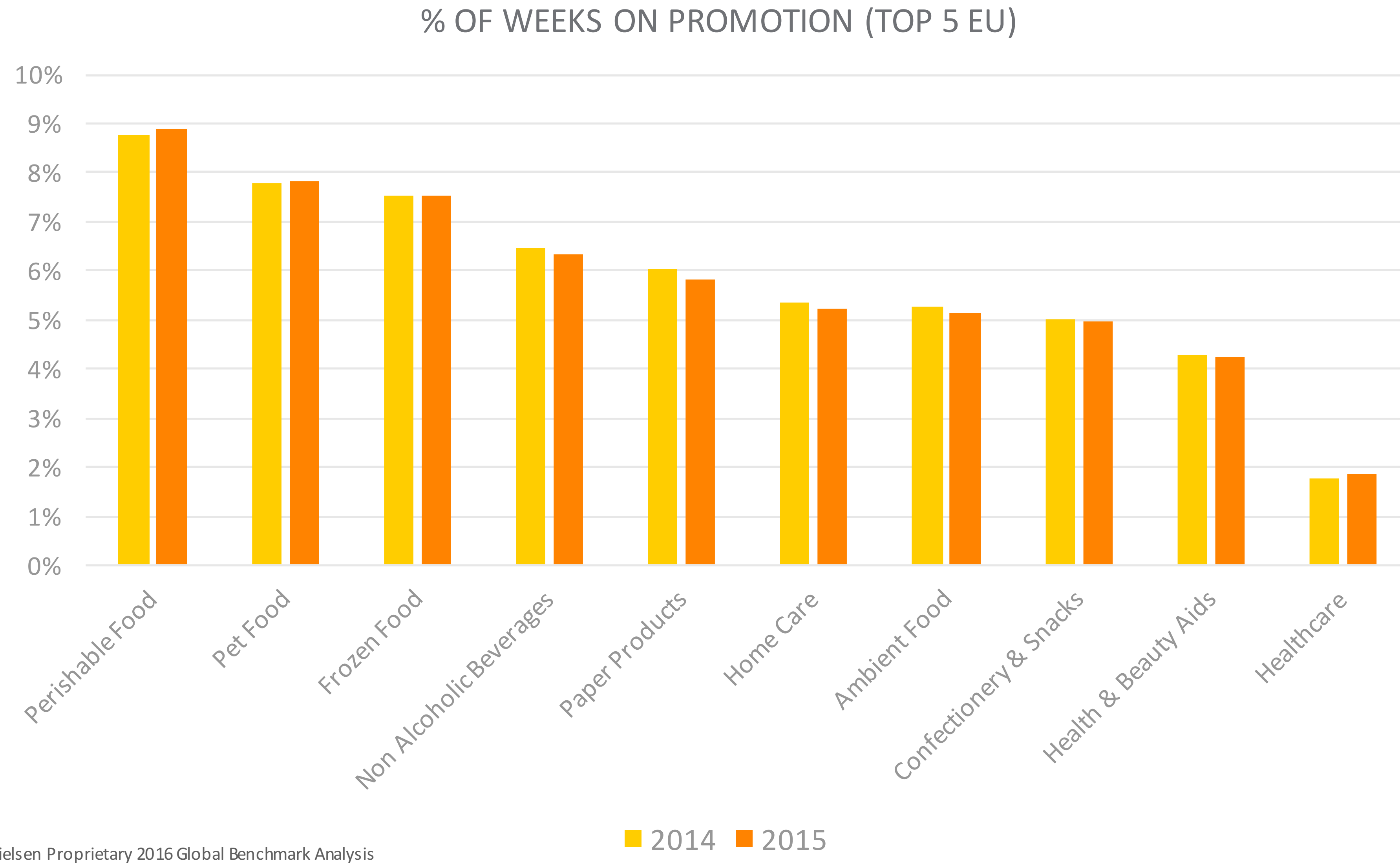
SUCCESSFUL EVENTS ARE SPREAD ACROSS THE STORE

Promotion effectiveness by department has remained stable over the past few years.



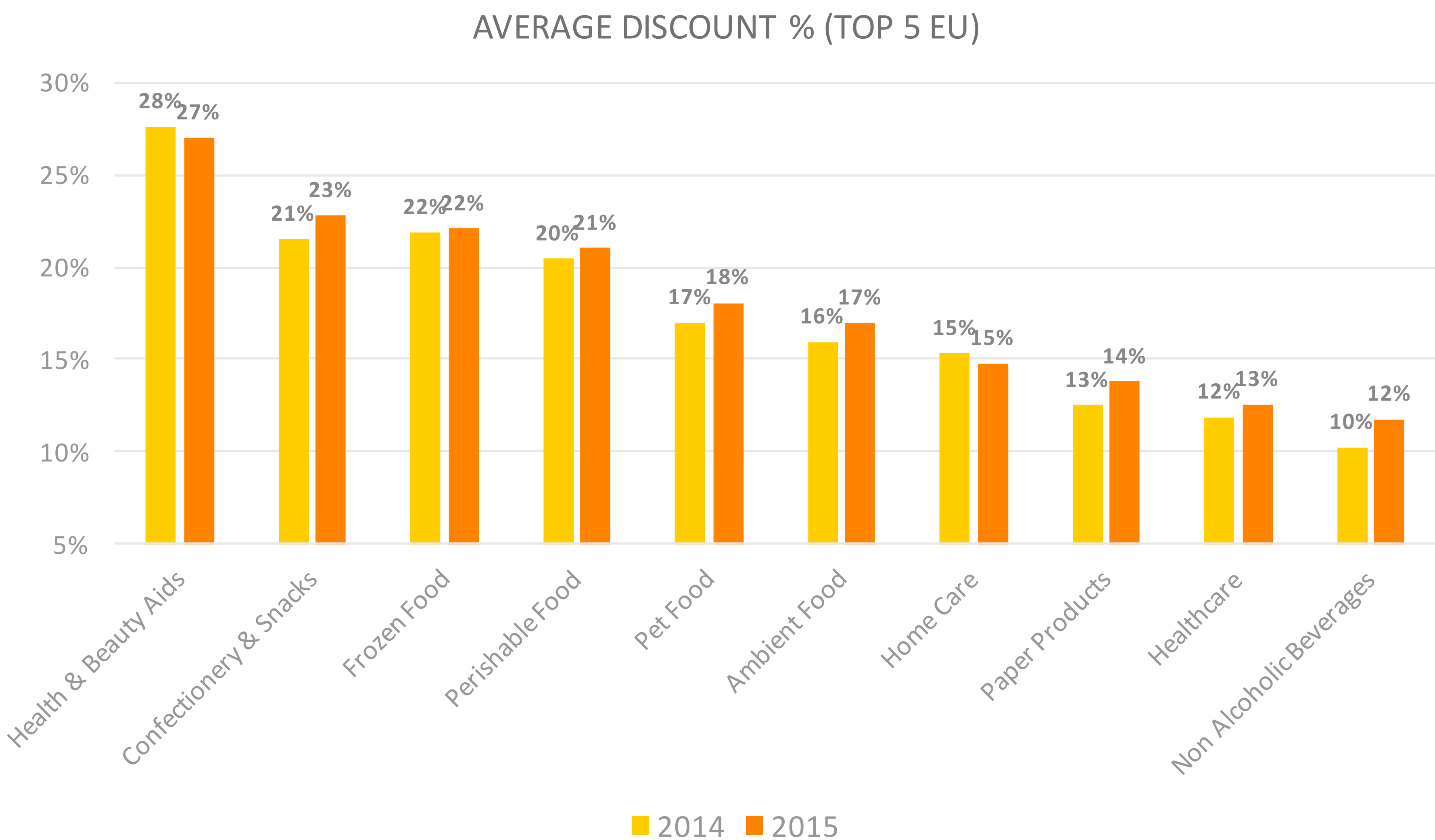
PROMOTIONAL FREQUENCY REMAINS STABLE OVER TIME

Number of event weeks vary by department but have not changed since last year.



DEPTH OF DISCOUNT HAS INCREASED SLIGHTLY

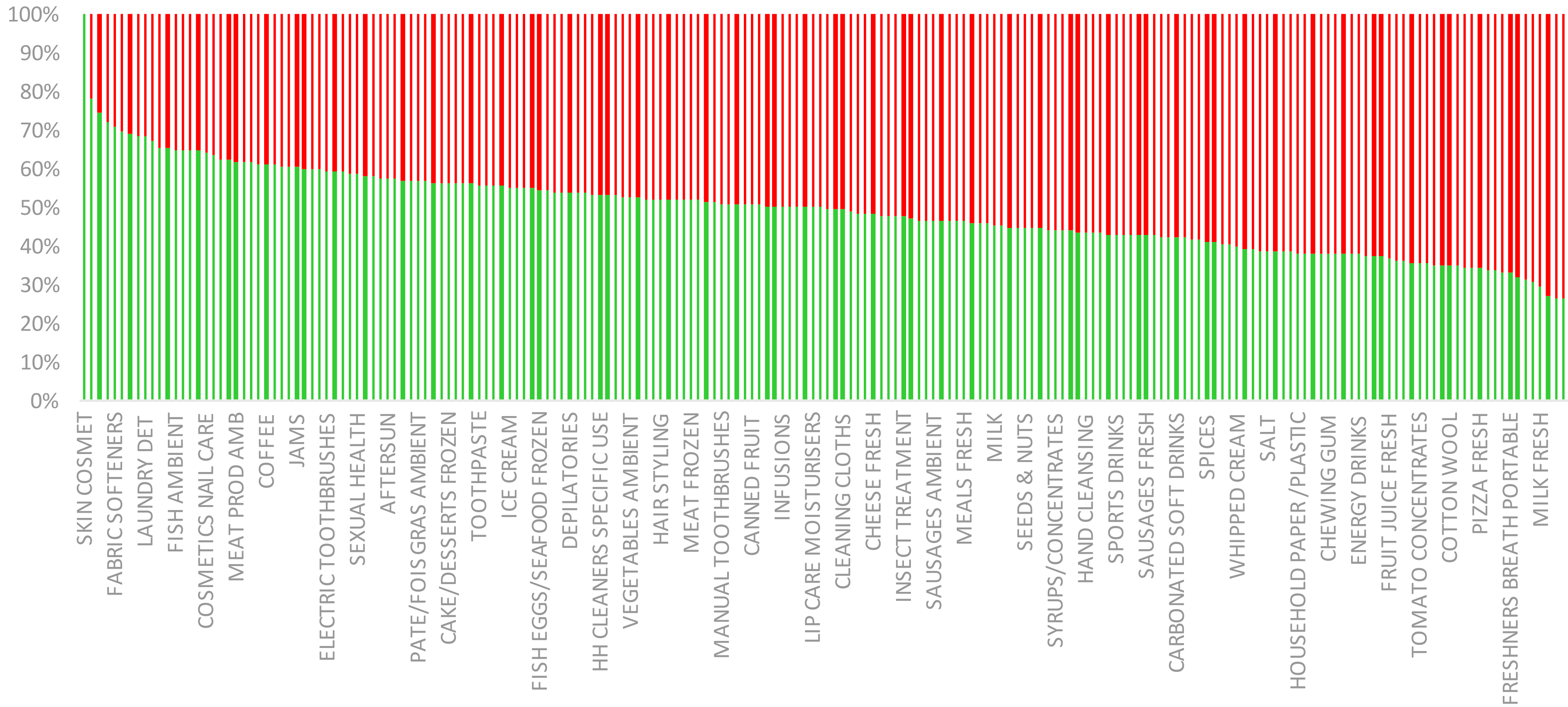
Health & Beauty Aids and Home Care are the only departments to give lower discounts.



CATEGORY SUCCESS VARIES SIGNIFICANTLY

Understanding where your business falls is valuable context

Euro Categories' % of Events Weeks Break Even



SO WHAT MAKES AN EFFECTIVE EVENT?

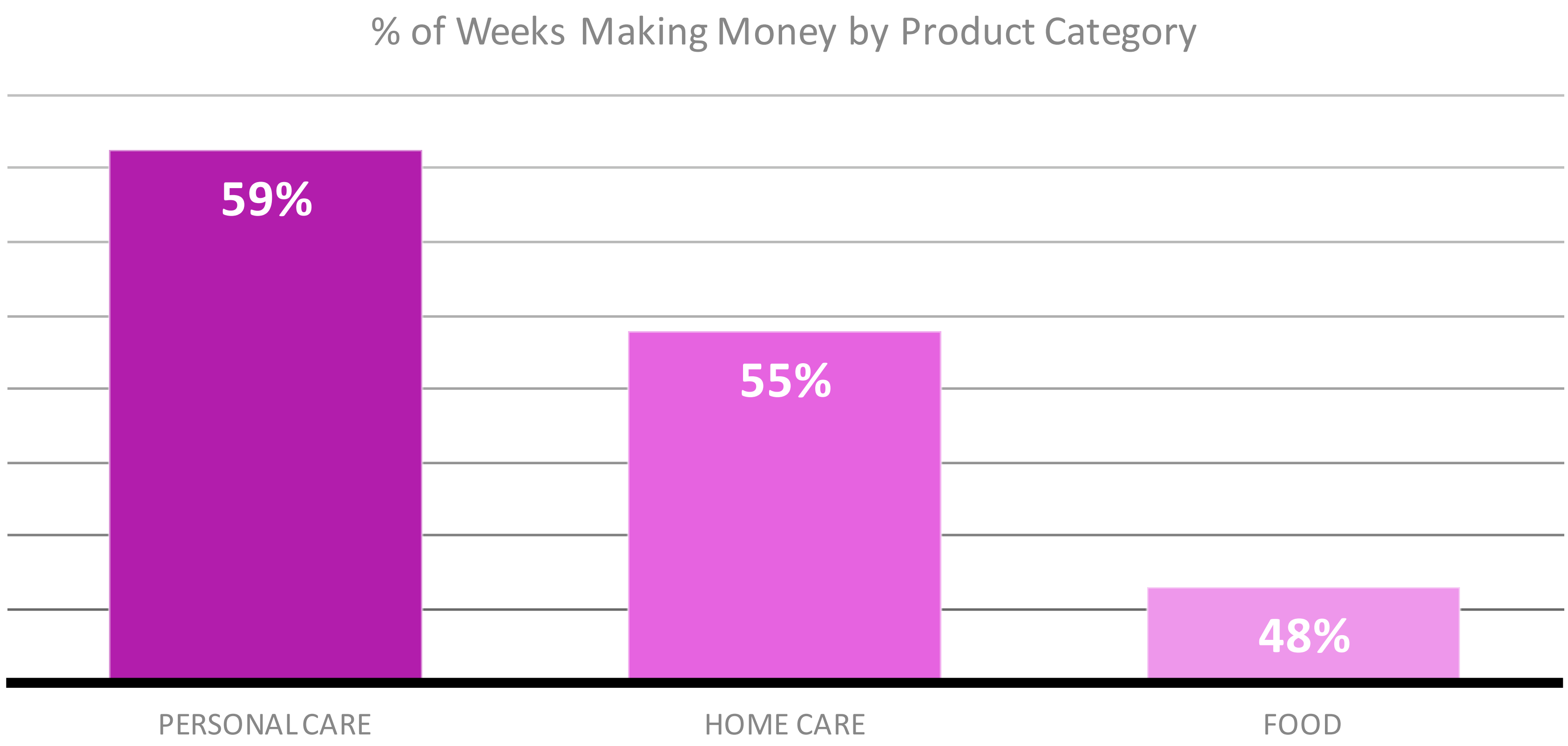
WHICH FACTORS POINT TO MORE EFFECTIVE EVENTS?

Are there clear indicators of successful event?

Potential Indicator	Relationship Strength	Direction of Relationship
Product Group	??	
Category Size	??	
Average Price	??	
Average Discount	??	
Promotion Frequency	??	
Quality Support	??	
Category Display Weeks	??	
Category Feature Weeks	??	
Promoted Price Elasticity	??	

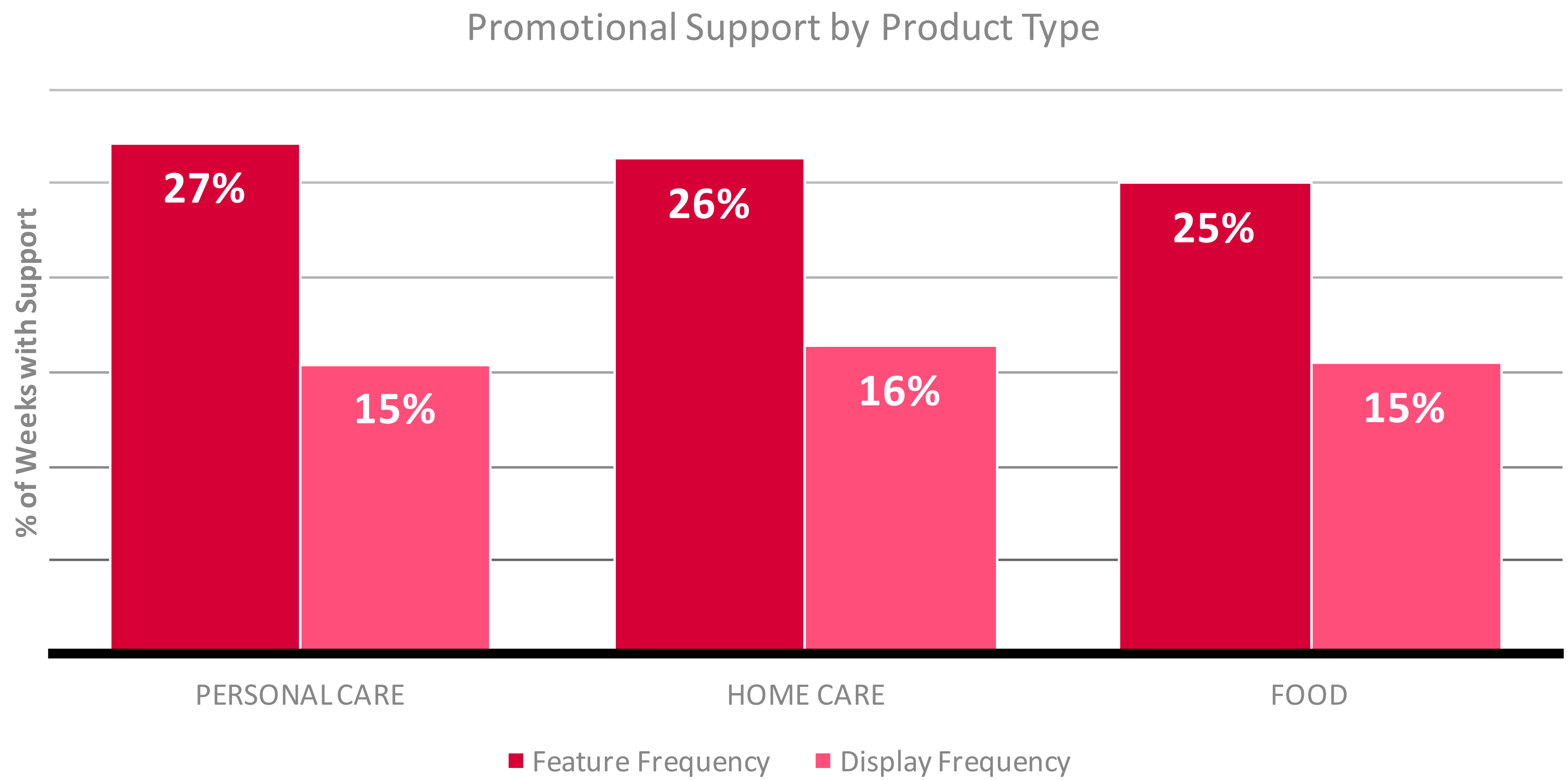
NON-FOOD CATEGORIES TEND TO BE MORE SUCCESSFUL

Food product categories trail the rest of the store by 10 points or more.



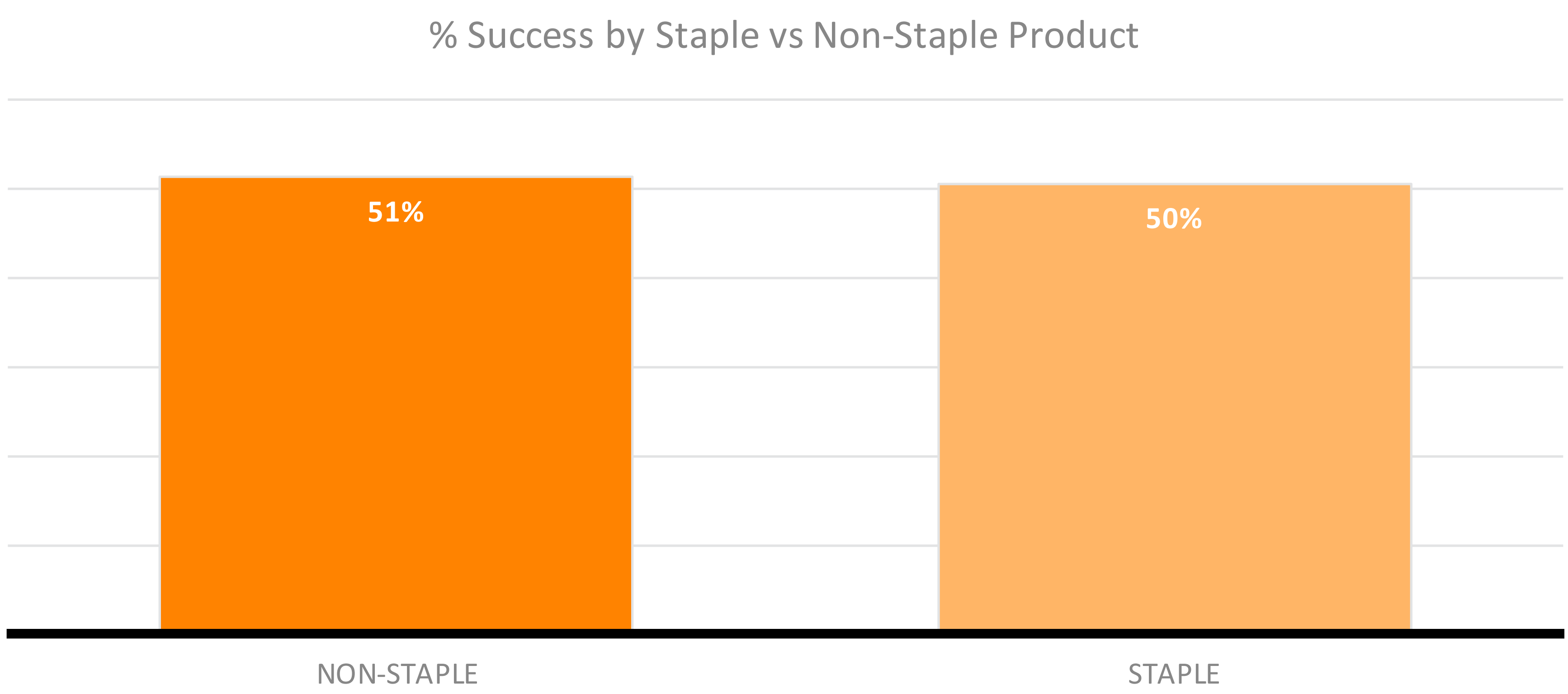
PROMOTIONAL SUPPORT IS EVEN ACROSS PRODUCTS

Both Food and Non-Food products receive similar promotional support, despite the difference in promotional success



STAPLES ARE JUST AS SUCCESSFUL AS NON-ESSENTIALS

Successful events are just as likely among staple products as with others.



PRODUCT GROUP TELLS US A BIT, BUT NOT ENOUGH

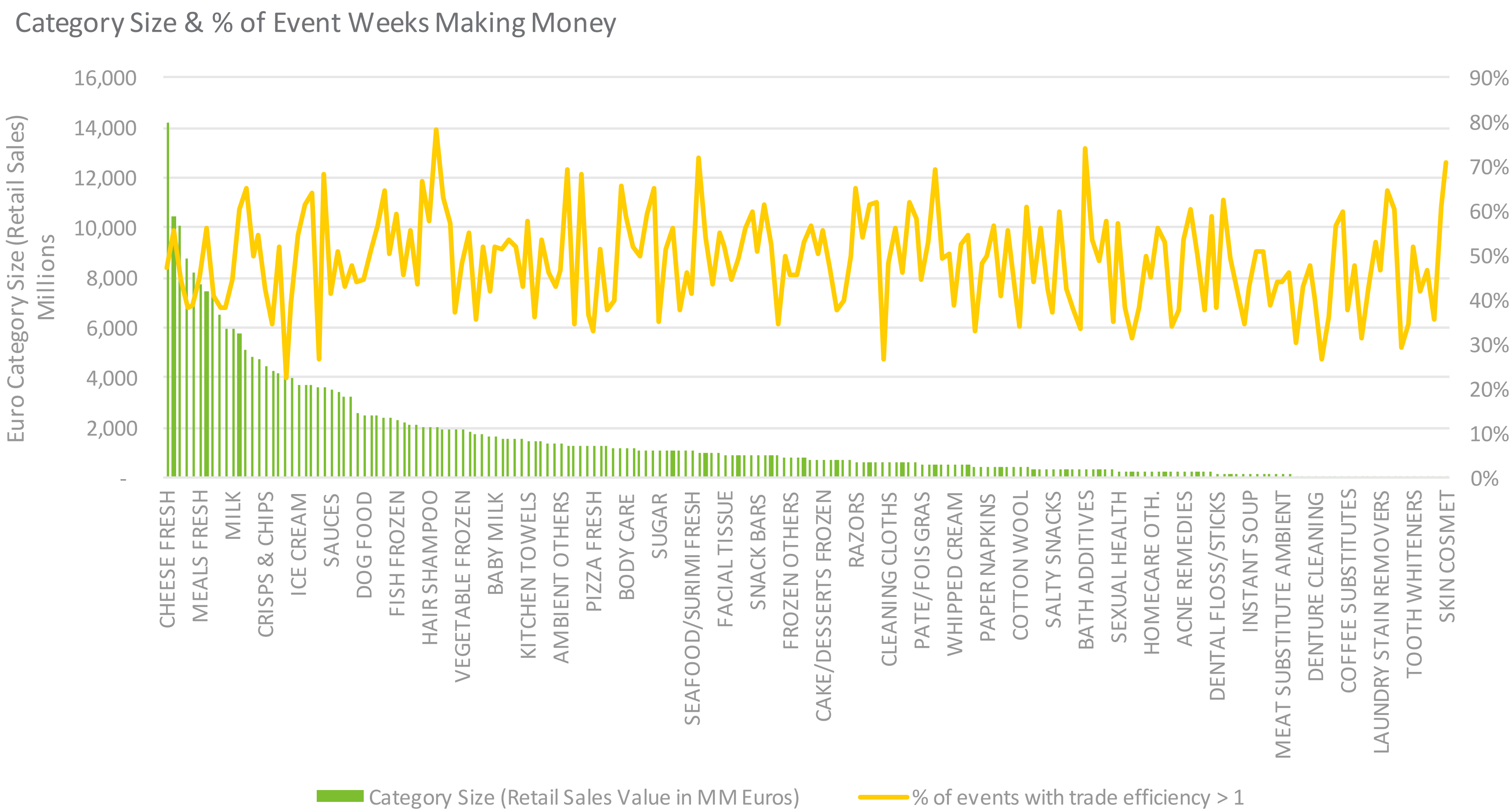
Within each groups of categories there is still a wide variety of responses.

So, these findings are general trends not hard and fast rules.

Rank	Personal Care	Home Care	Food
1	Fragrances (78%)	Insect Repellent (100%)	Edible Oils (68%)
2	Bath Additives (74%)	AutoDishWash Detergent (72%)	Fish (ambient) (64%)
…			
n-1	Denture Fixatives (38%)	Cotton / wool (34%)	Fruit Compote (27%)
n	Breath Fresheners (29%)	AutoDishWash Salt (27%)	Fresh Milk (22%)
All	**(59%)**	**(55%)**	**(48%)**

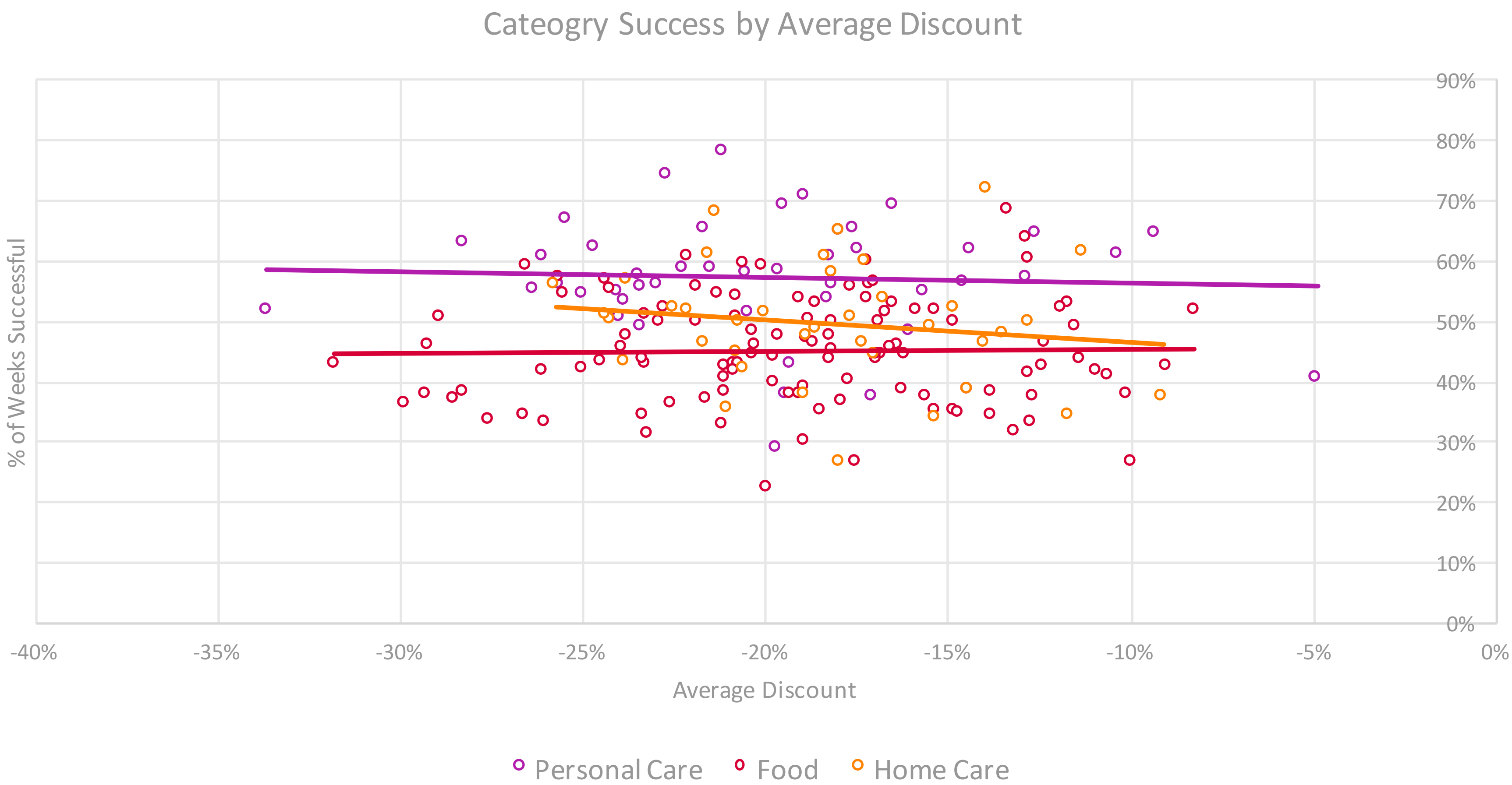
CATEGORY SIZE DOES NOT DICTATE PERFORMANCE

There is no relationship between category size and promotion efficiency



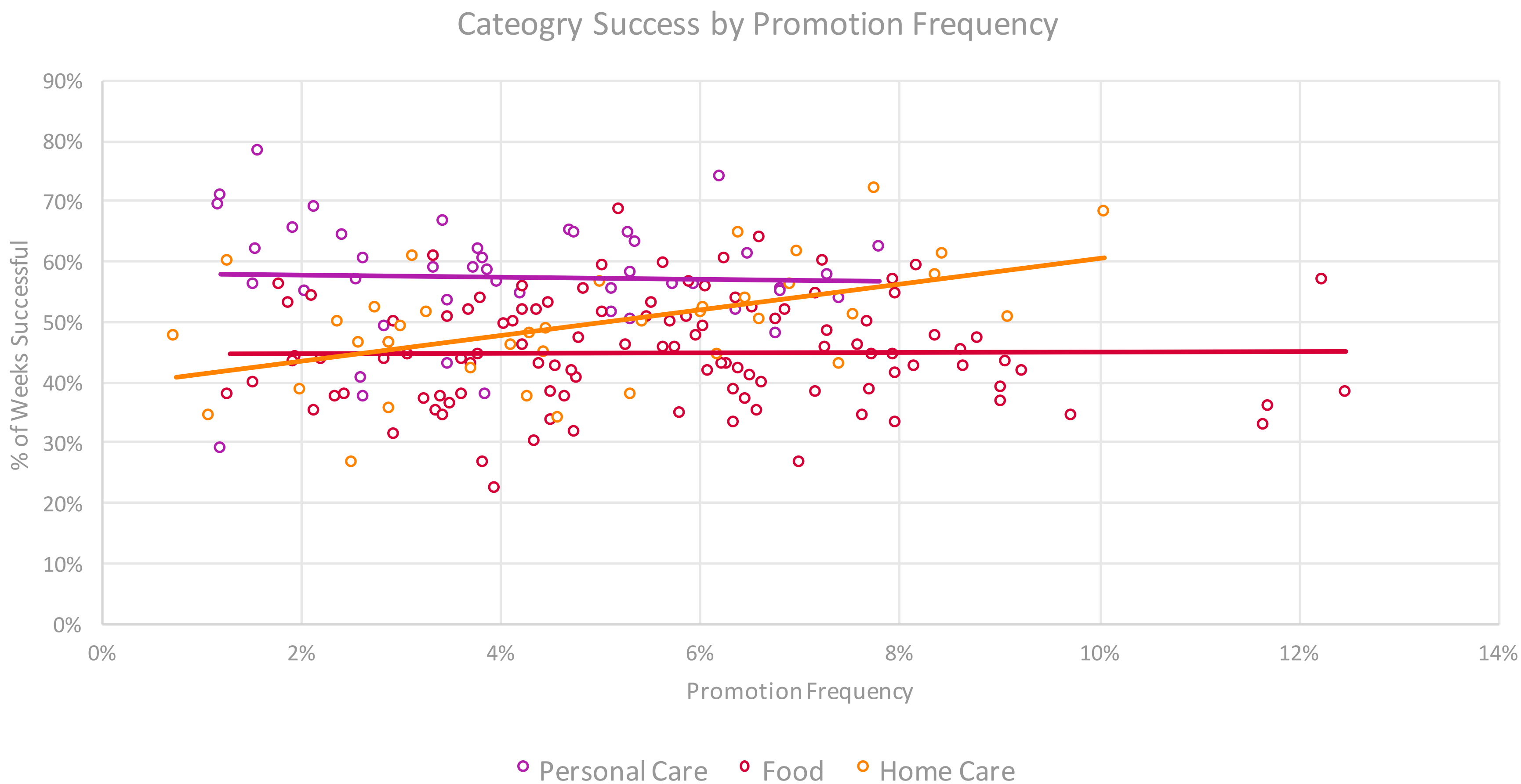
LARGER DISCOUNTS ARE NOT MORE SUCCESSFUL

Larger discounts don't explain the variation in success



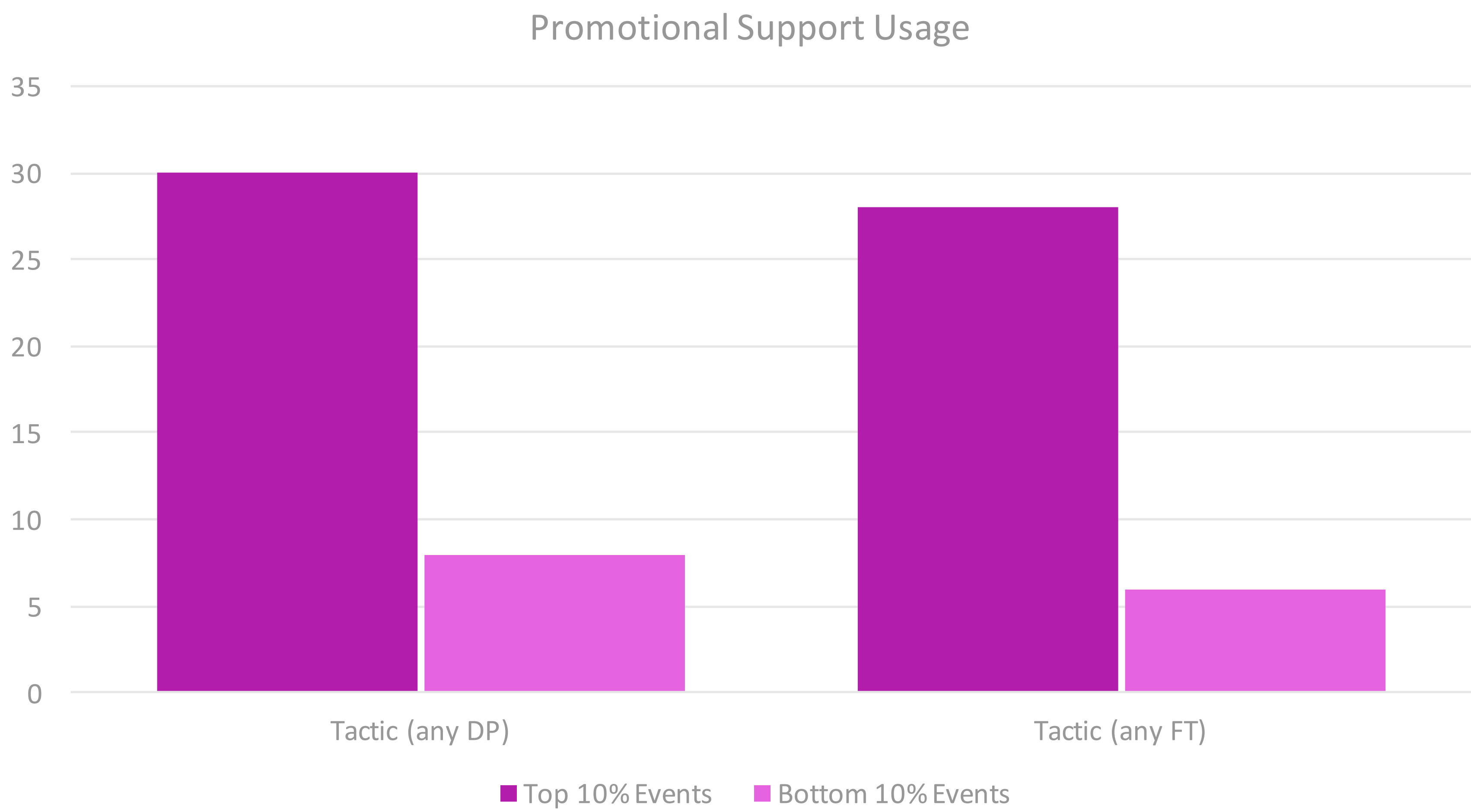
FREQUENT PROMOTIONS ARE NOT MORE SUCCESSFUL

Categories with more frequent promotions do not drive success for Food or Personal Care products.



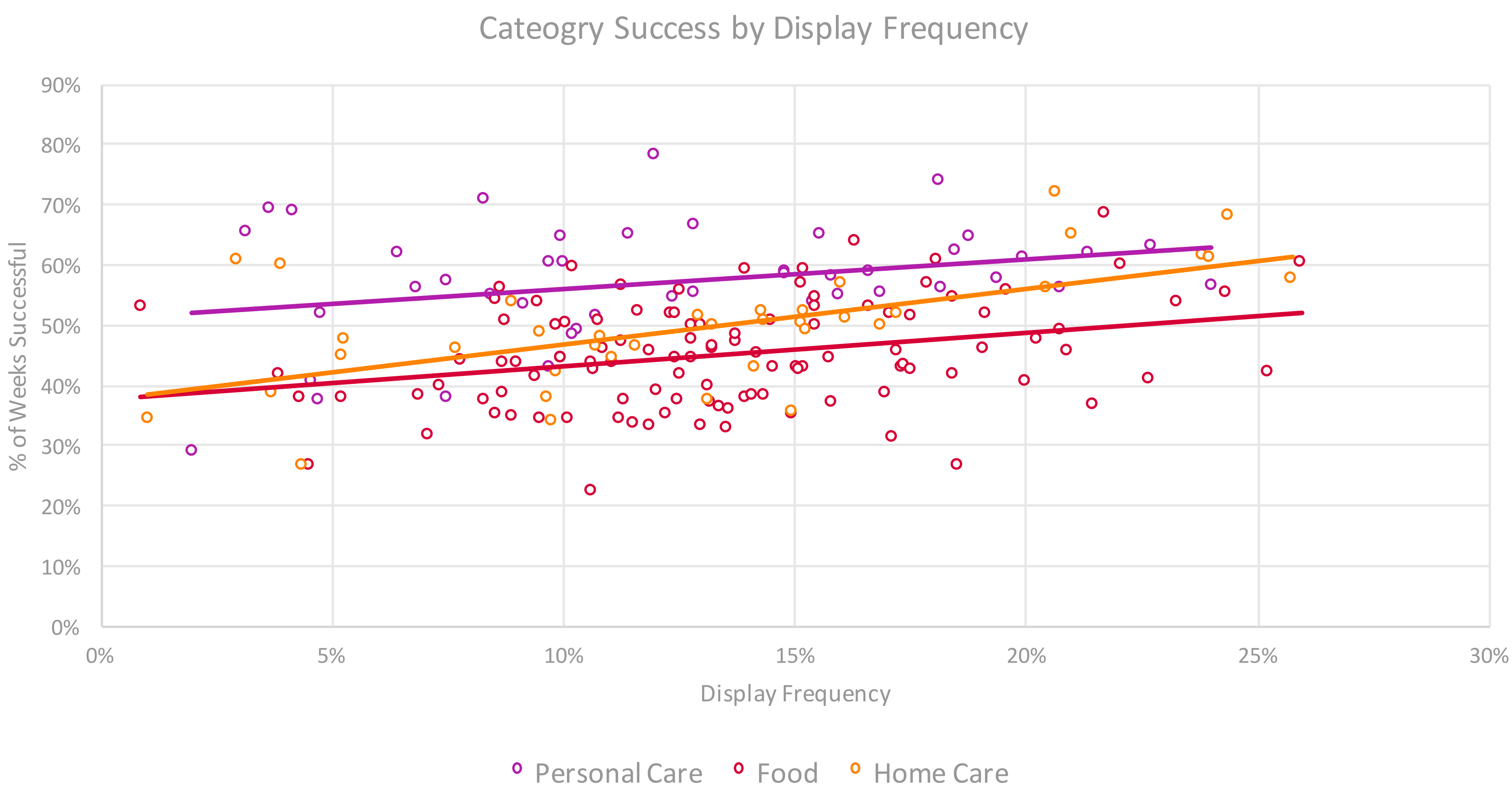
PROMOTIONAL SUPPORT BRINGS MORE EFFICIENCY

Best-in-class events used 22% more promotional support than the least efficient



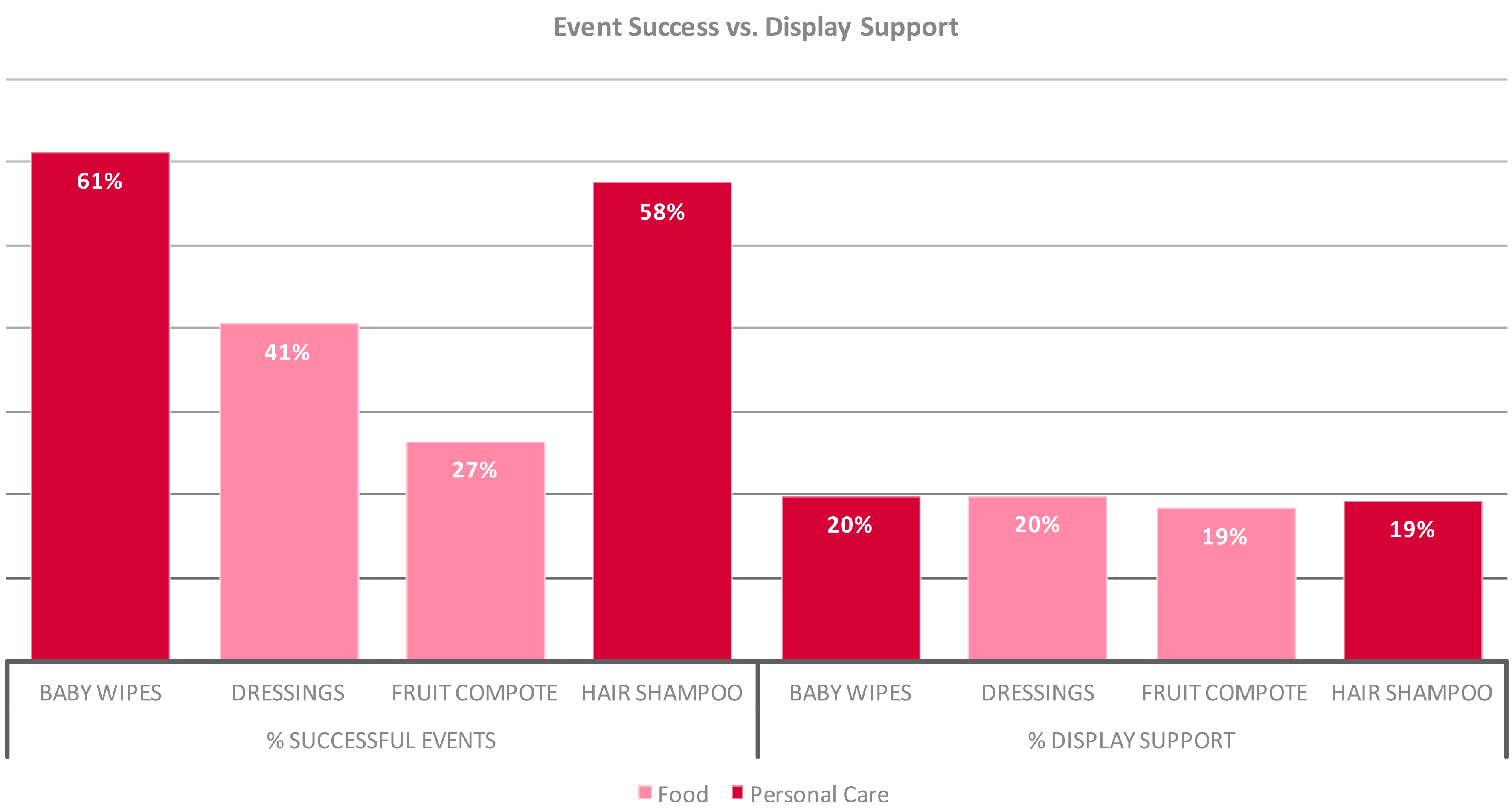
FREQUENT DISPLAYS TEND TO BE MORE SUCCESSFUL

This pattern is consistent across product types, and strongest for Home Care



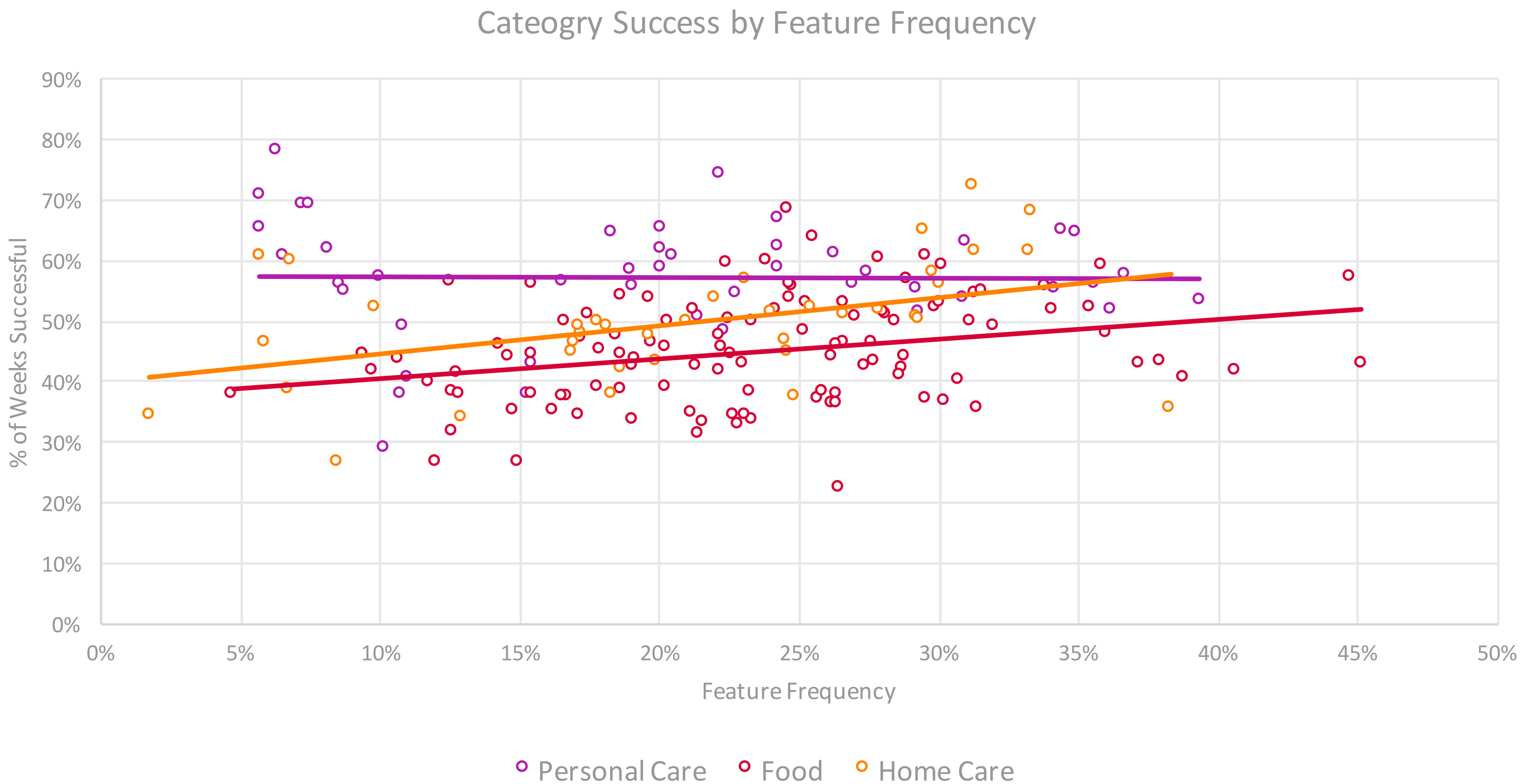
BUT DISPLAY SUPPORT DOESN'T GUARANTEE SUCCESS

Support helps success, but other factors need to be taken into consideration



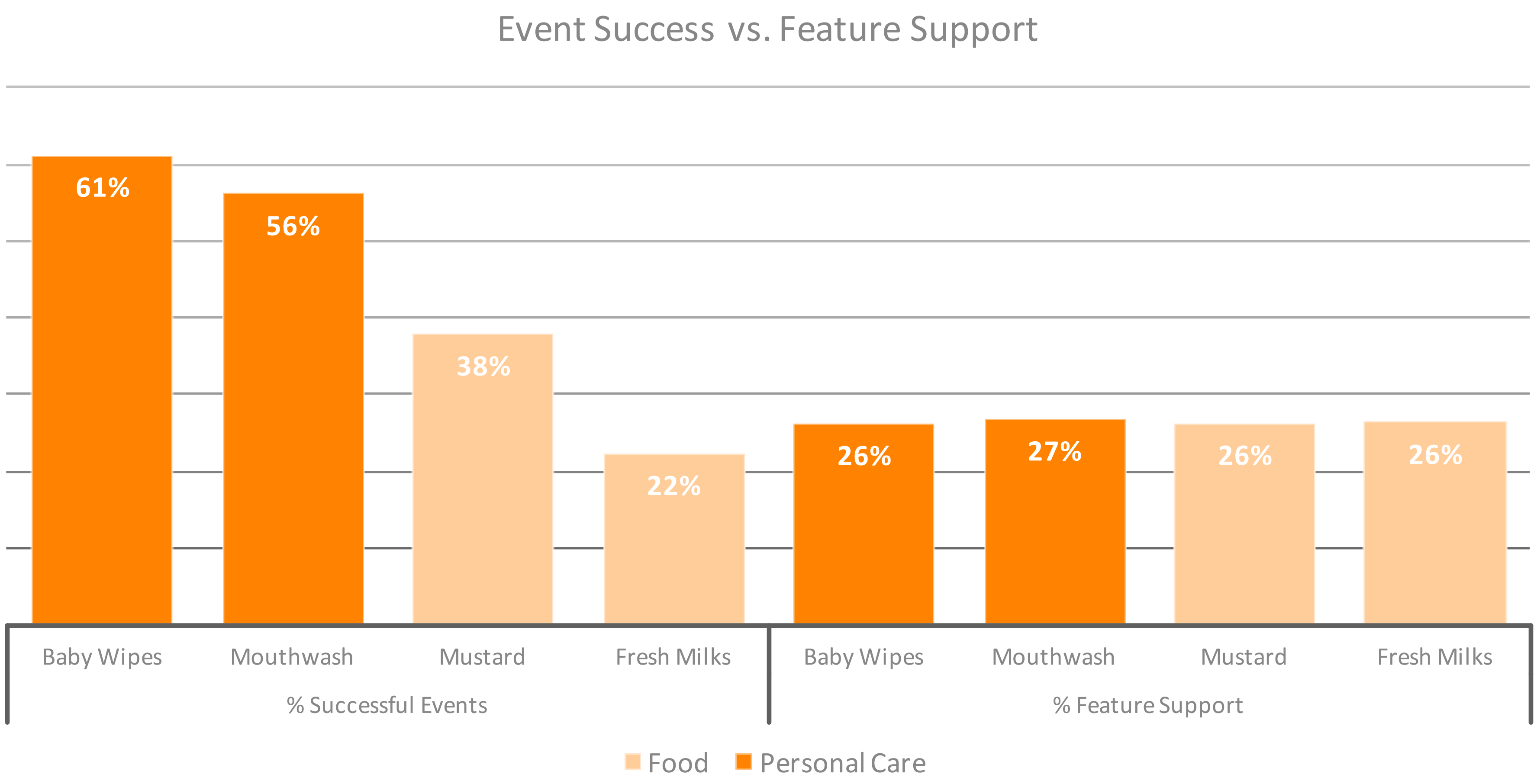
FEATURE SUPPORT ALSO SEEMS TO HELP

Food and Home Care categories show a stronger relationship than Personal Care



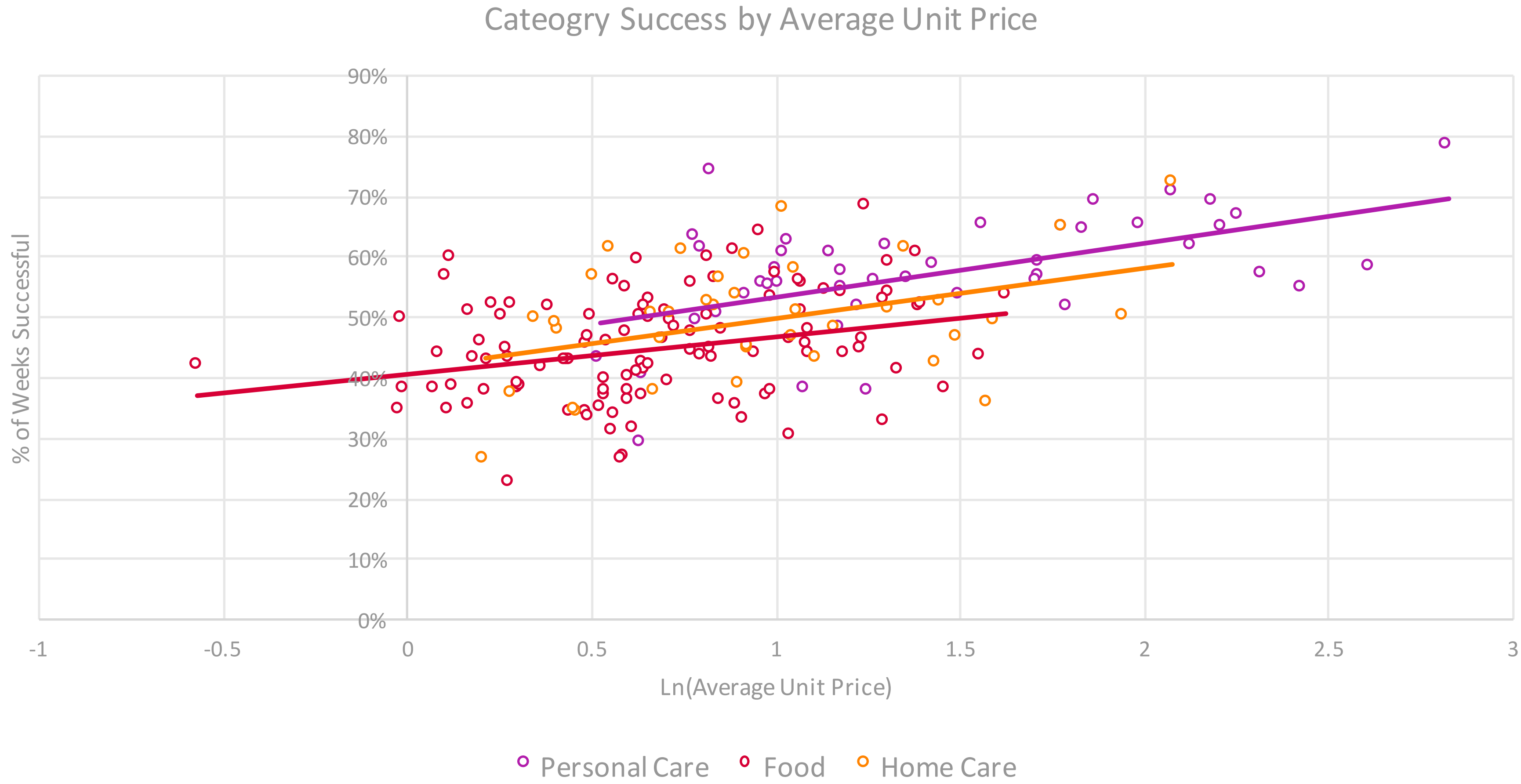
FEATURE SUPPORT DOESN'T GUARANTEE SUCCESS

Mustard and Fresh Milk receive similar feature support but Mustard is more likely to have a successful promotion



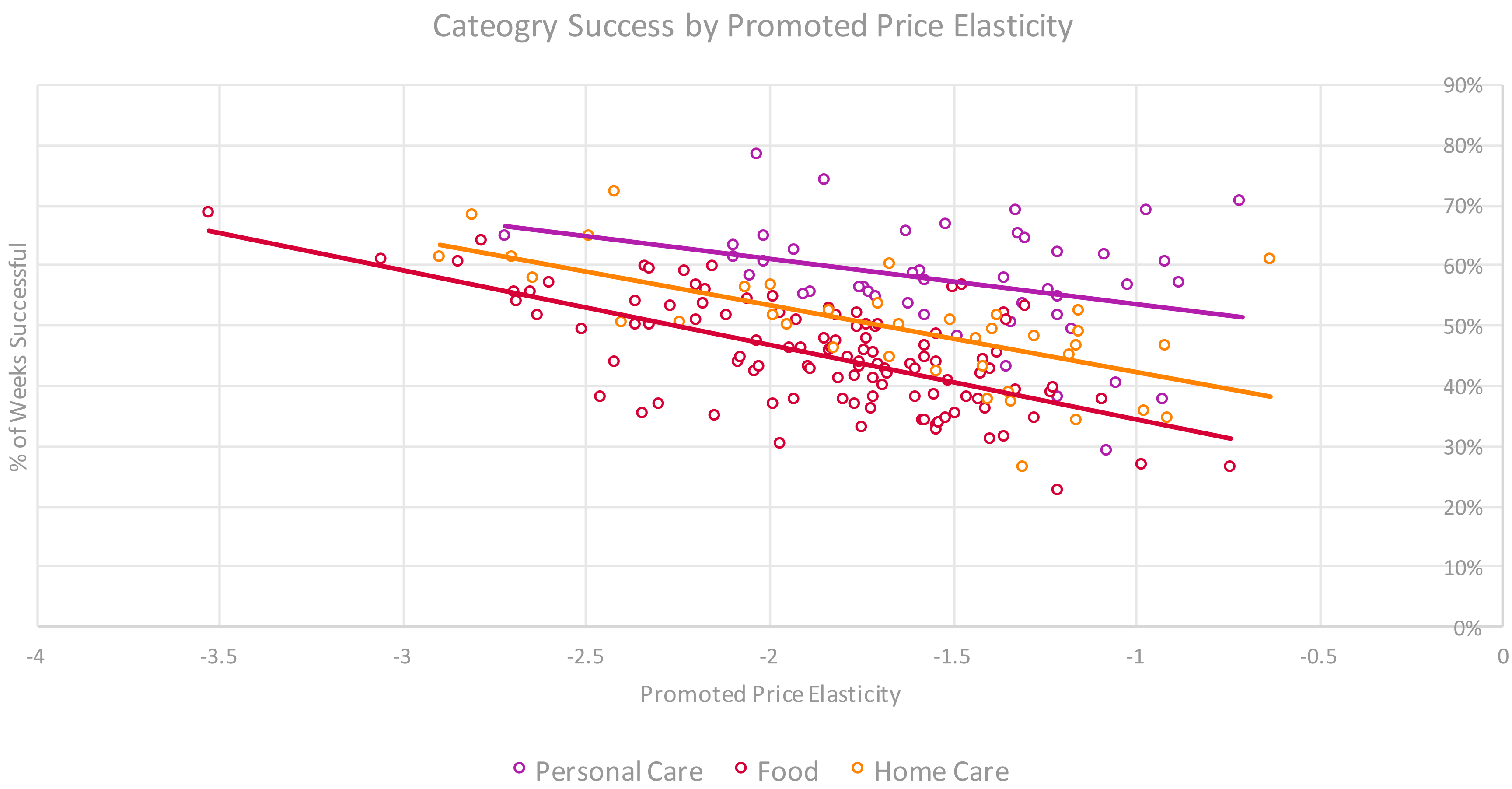
CATEGORIES WITH HIGHER AVERAGE PRICES TEND TO HAVE MORE SUCCESSFUL EVENTS

This pattern is consistent across product types



CATEGORIES THAT ARE MORE PRICE SENSITIVE TEND TO HAVE MORE SUCCESSFUL EVENTS

This pattern is consistent across product types



PROMOTIONAL SUCCESS RELATES TO PRICE ELASTICITY

Trends suggest to focus price cuts on elastic categories; dynamics differ by country.

FURTHER INVESTIGATIONS USING PRICE ELASTICITY

We've seen evidence that ROI and Elasticity are linked.

What are these elastic products?

This relationship proves some common intuitions

but also uncovers complex underlying relationships.

Scope/Definitions:

200 EuroCategories spanning Top5 European countries

"Most Sensitive" = 25 most elastic product categories

"Least Sensitive" = 25 least elastic product categories

MOST ELASTIC CATEGORIES ACROSS COUNTRIES

20% of the "Most Sensitive" categories appear in 4 of the top 5 countries

Although these categories are all price sensitive, there is still great variation in success rates for promotional events

Category	Number Of Countries in Top 15%	% Event Success Rank* (EU Top5)	Average % Success (EU Top5)
Hand Dish Soap	5	23	61%
Edible Oils	5	8	68%
Fabric Softeners	4	9	68%
Kitchen Towels	4	39	58%
Sweet Spreads	4	63	54%
Toilet Paper	4	22	61%

*Rank is out of 198

LEAST ELASTIC CATEGORIES ACROSS COUNTRIES

20% of the "Least Sensitive" categories appear in 4 of the top 5 countries

Although these categories are relatively inelastic, many have higher than average rates of promotional success

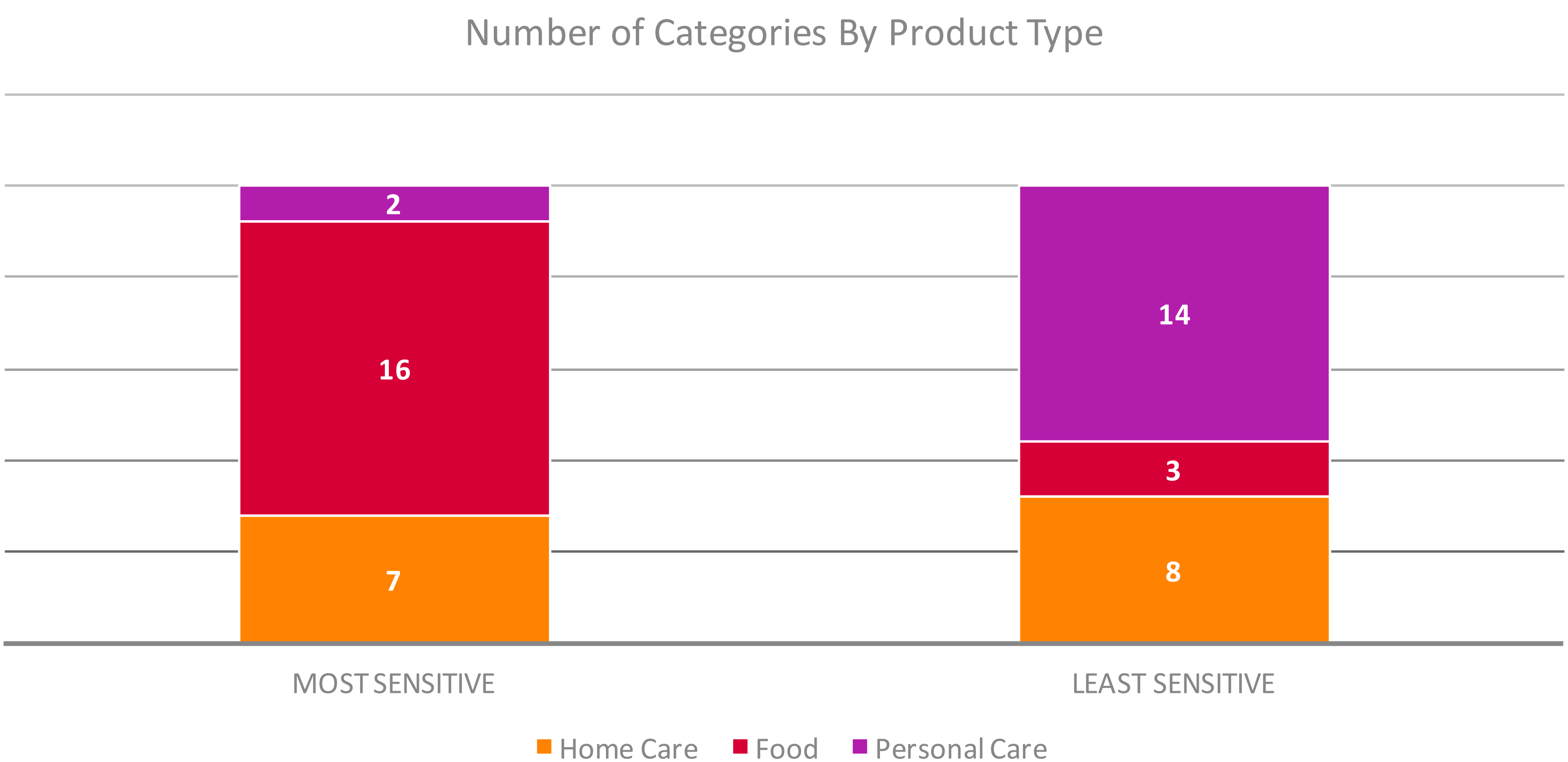
All Personal Care Categories

Category	Number Of Countries in Bottom 15%	% Event Success Rank* (EU Top5)	Average % Success (EU Top5)
Cosmetics - Lip	4	6	69%
Cosmetics – Nail Care	4	21	62%
Cosmetics - Face	4	7	69%
Portable Breath Freshners	4	194	29%
Lip Care	4	27	61%
Sexual Health	4	41	57%

*Rank is out of 198

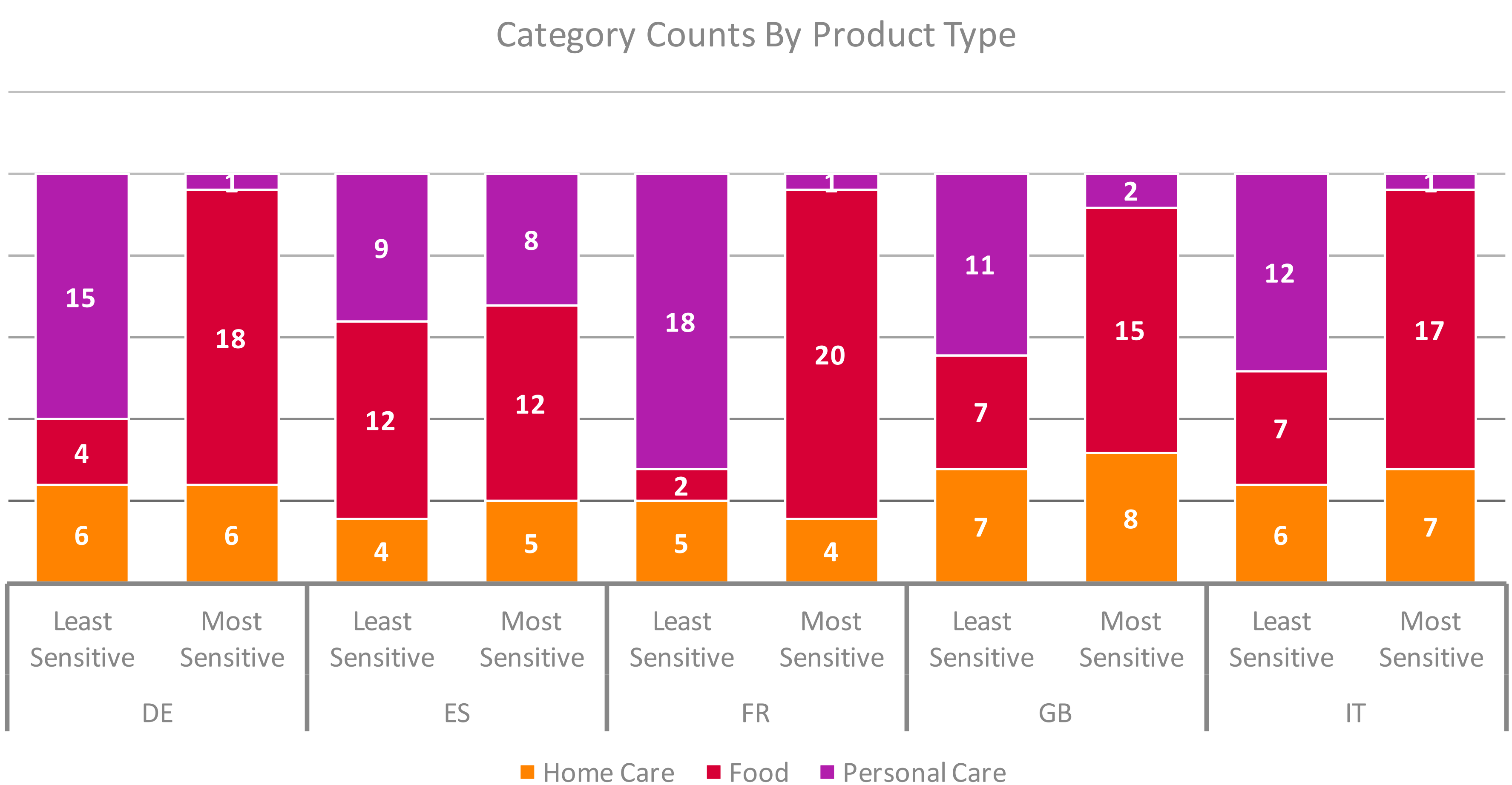
16 OF TOP 25 MOST ELASTIC CATEGORIES ARE FOOD

Personal care categories dominate the least sensitive group.



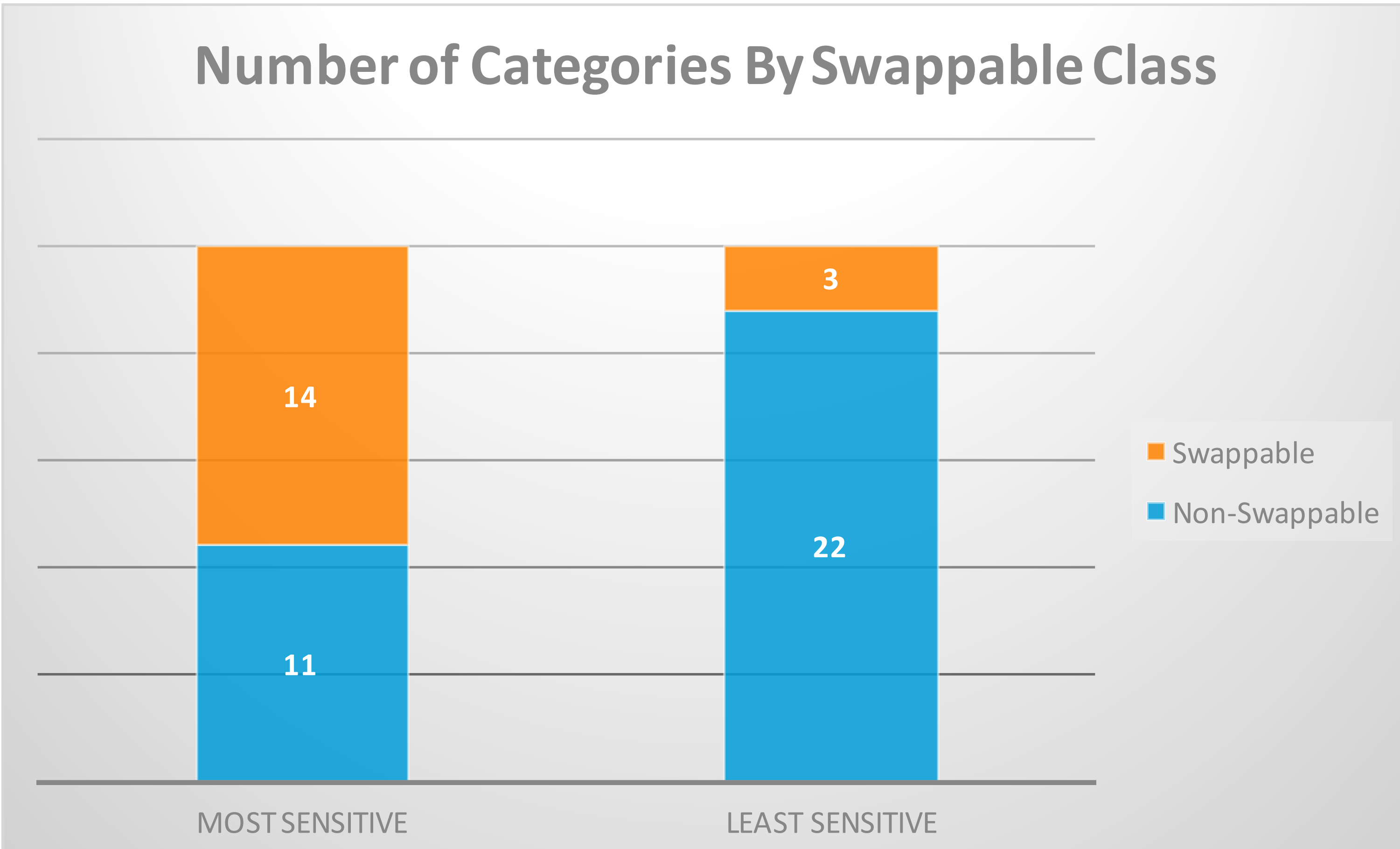
THE RESULTS VARY WIDELY ACROSS COUNTRIES

Pricing dynamics within product type changes by country



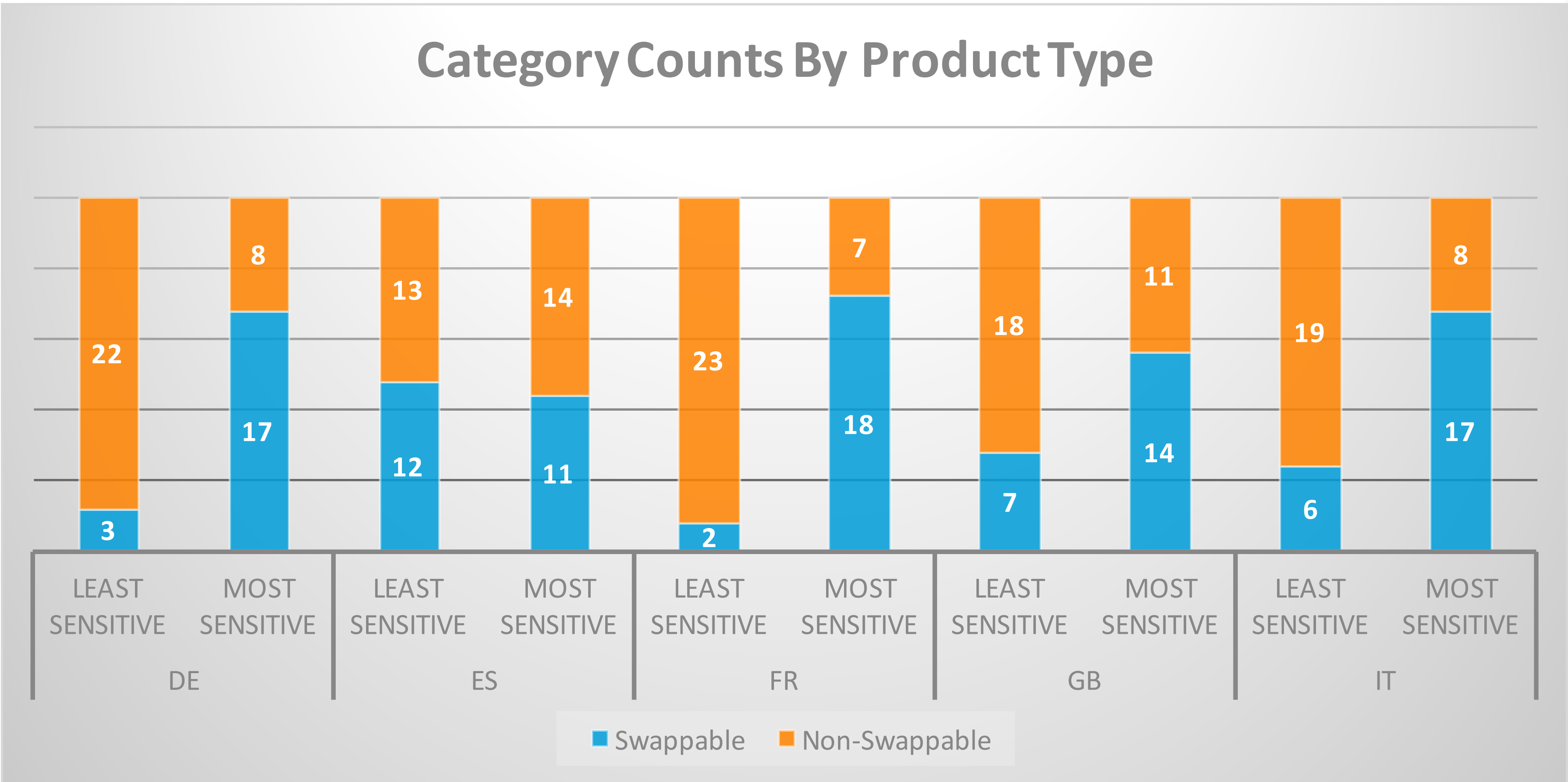
CONFIRMING INTUITION ??

The “swappable” categories correspond to the highest elasticities



THE RESULTS VARY WIDELY ACROSS COUNTRIES

Category competition affects elasticity differently across countries



WHICH FACTORS POINT TO MORE EFFECTIVE EVENTS?

To review what we have seen, here's an Indicator Scorecard.....

Potential Indicator	Relationship Strength	Relationship Direction
Product Class	Strong	Non-food is better.
Category Size	Weak	Positive
Average Price	Strong	Positive
Average Discount	Weak	Positive
Promotion Frequency	Weak	Positive
Quality Support?	Strong	With support is better.
Category Display Weeks	Moderate	Positive
Category Feature Weeks	Moderate	Positive
Promoted Price Elasticity	Strong	Positive (magnitude)

LEARNINGS

Don't expect. **There is not A MAGIC KEY** that opens each door (magic formula of efficient trade promotions that will fit each market, each category, each channel, brand, and SKU).

Crack the code of Best-in-Class Trade Promotion **in YOUR category, YOUR market,** taking into account multichannel retail landscape.

Nowadays, **learning from your own actions is not enough. Also learn from what competition** does. Compete with others on trade efficiency, not only on market share.

THIS IS A BIG CHALLENGE, WHERE DO I START?

Understand context and focus on biggest problems in overall process

DON'T KNOW

Benchmark your performance to the industry and your key competitors

TREND:
How has the return on my promotions changed over time?
Over the last 3 years the return on Client A promotional performance has declined 44% vs. a 7.9% decrease for promotions across the total store

DECREASING OVER TIME — INCREASING OVER TIME

CATEGORY POSITIONING:
How do my category promotions compare across categories?
Category B promotions perform over 2.5X better than the total store average effectiveness

BELOW STORE AVERAGE — ABOVE STORE AVERAGE

KEY ACCOUNTS:
How are promotions performing in my priority accounts?
Client A promotions at your top 5 accounts have an average return of 17% more compared to your promotions across all accounts

BELOW AVERAGE ACCOUNT — ABOVE AVERAGE ACCOUNT

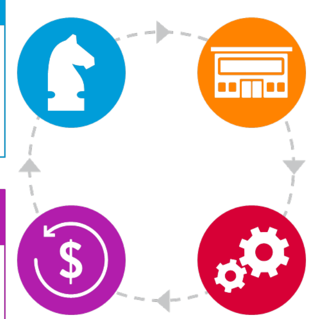
VERSUS COMPETITION:
How do my promotions compare to my competitors?
Promotional performance for Client A is 200% below best-in-class Category A brands

BELOW CATEGORY AVERAGE — ABOVE CATEGORY AVERAGE

Identify the largest pain points in your overall planning process and align solutions

STRATEGY DEVELOPMENT
- *What are the best pricing strategies for my brands?*
- *What are my biggest promotion opportunities?*
- *How can I better deploy my trade spend?*

ACCOUNT IMPLEMENTATION
- *How can I adjust the national strategies to fit within my retailers' funding strategies?*
- *How do I customize insights for key markets to reflect unique dynamics?*



ONGOING EVALUATION
- *Where am I spending my trade dollars today?*
- *What are my best and worst performing events?*
- *What is the financial return on my trade investment?*

SYSTEMS AND TRADE MANAGEMENT
- *How can I more efficiently manage the pricing process with my customers?*
- *How can I be sure that I am getting the execution that I am paying for?*

PROMOTION BENCHMARK ANALYSIS

A three-step approach to help you understand how well your promotions perform and differences in strategy vs. your competition

Benchmark Assessment

Benchmark your trade promotion performance against other categories and competitors within your categories

Outcome:

Understand how your promotions compare to best-in-class

Promotion Diagnostic Check

Measure the effectiveness of different trade controllables such as promotion tactic and discount depth

Outcome:

Identify the best-in-class trade promotion strategies and tactics

Drill Site Scorecard

Benchmark your promotion strategy vs. best-in-class across channels, segments, depth, frequency and timing

Outcome:

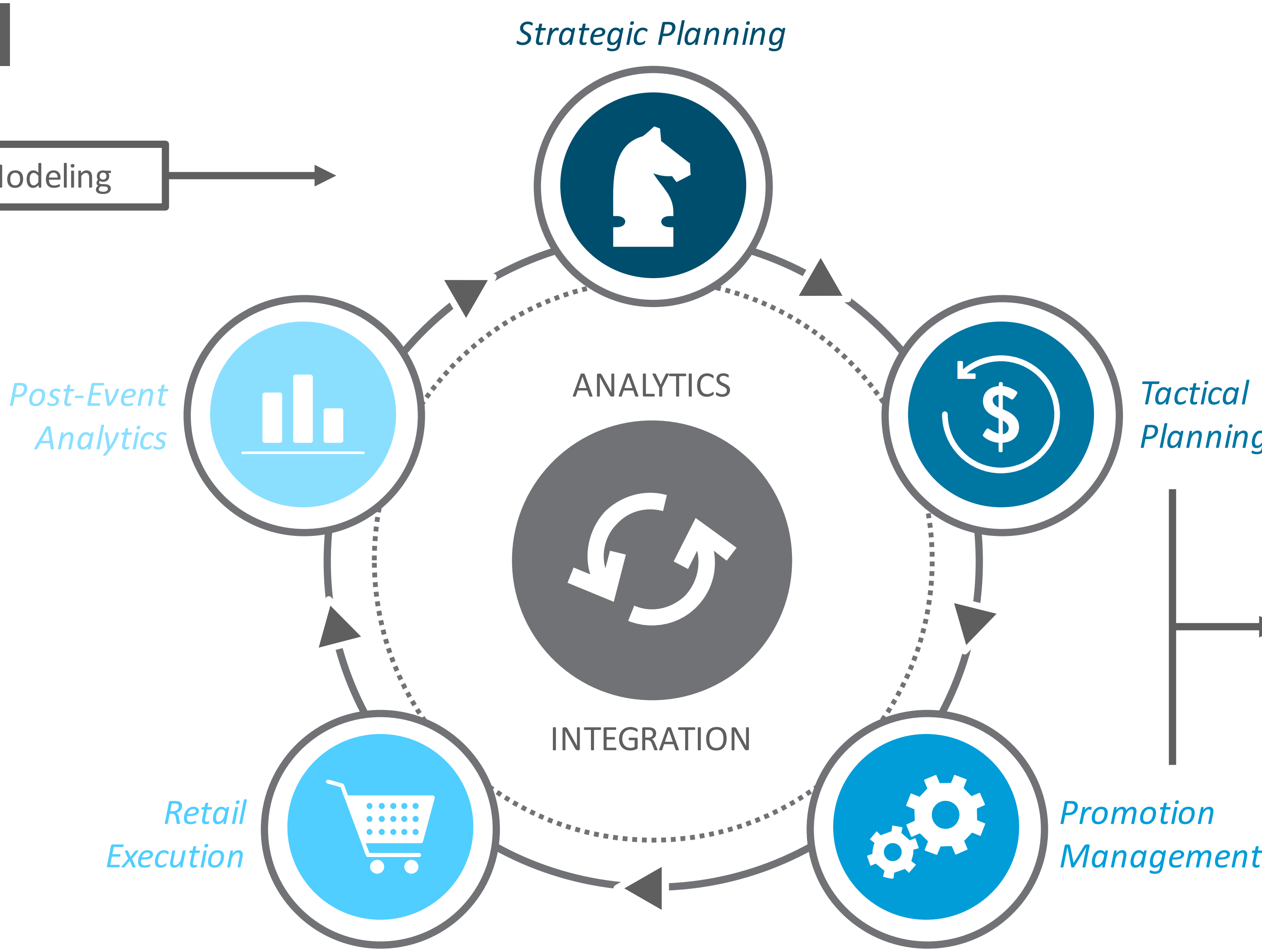
Prioritize focus areas to bring your promotions to best-in-class levels

REVENUE MANAGEMENT CYCLE

Dynamic solution with predictive analytics applied to latest sales data to support on-going pricing and promotion decisions, analysis and business planning process

INPUTS

PnP Modeling



LINKS TO

TPM Integration

S&OP Demand Planning