How to Drive Successful Promotion Programs for Today's and Future's Shoppers

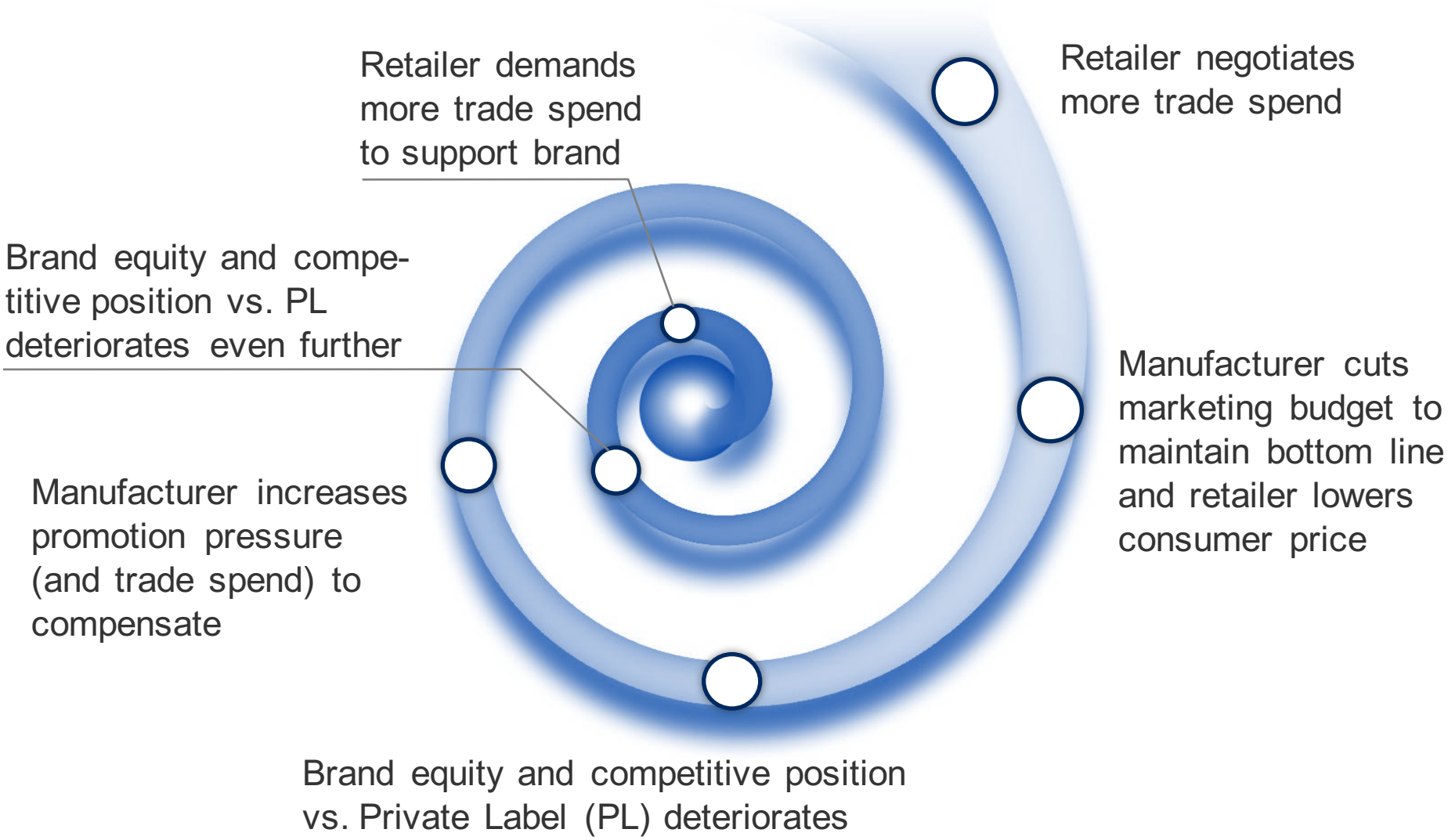
Presented by:
Josef Kouba, Junior Partner
McKinsey & Company, Inc.

May 11, 2016

CONFIDENTIAL AND PROPRIETARY
Any use of this material without specific permission of McKinsey & Company is strictly prohibited

Seen this before?

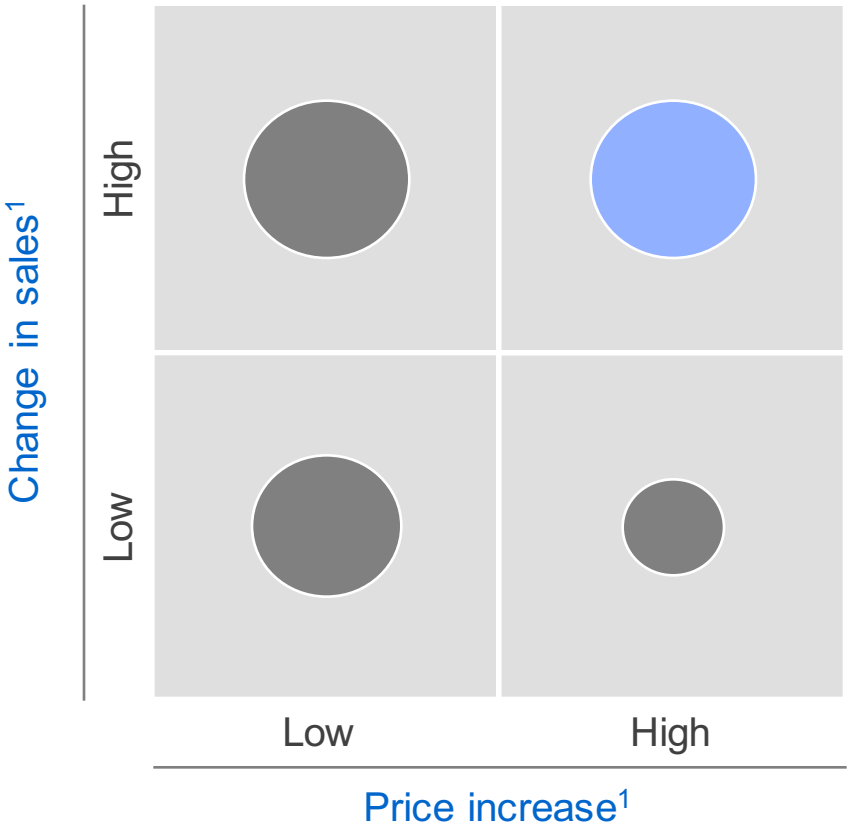
The trade investment downward spiral

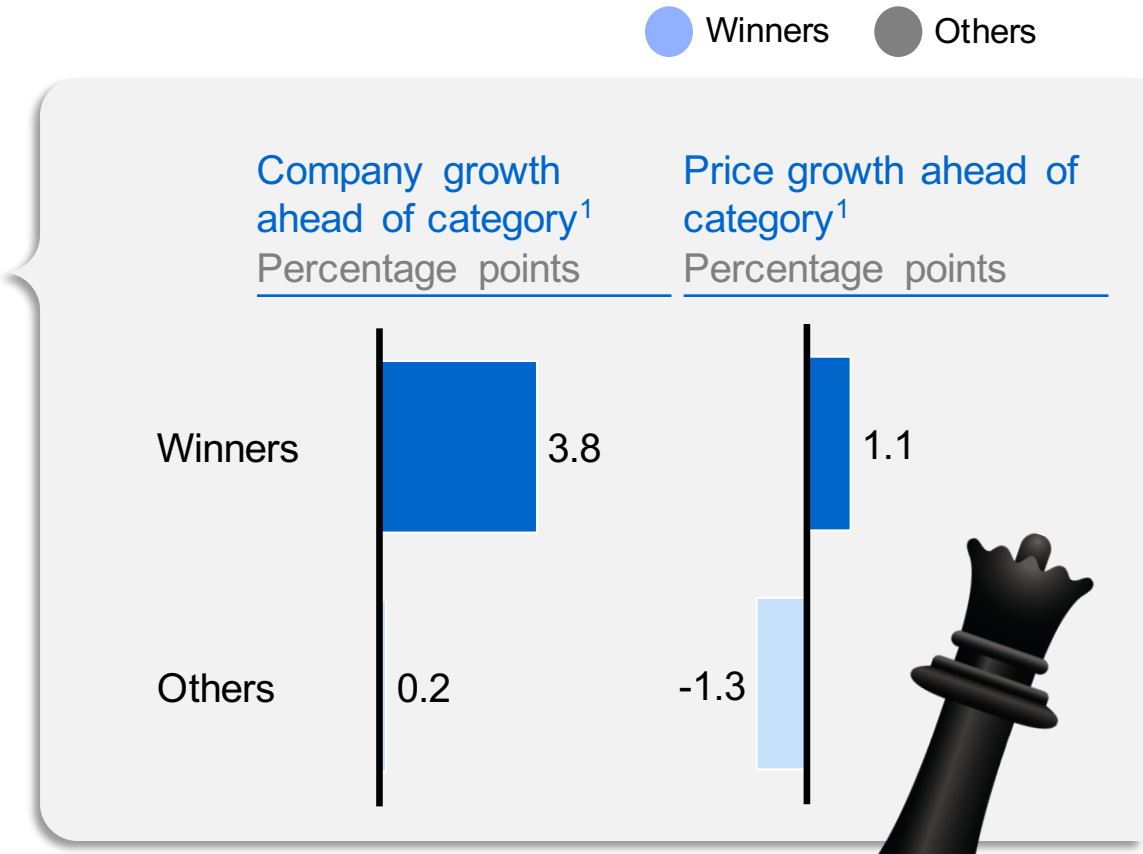


Winning the promotion optimization game is getting increasingly harder

- Retailers are demanding more for less
- Analyses of historical event is yielding fewer insights…
- …and where there is promotional variety, the events are very complicated to analyze
- Responsibility for analyzing promotions is typically distributed across the organization
- Promotion tools have lagged users' needs, and lack integration

Recent survey: CPG winners manage to grow ahead of the category and at the same achieve average prices ahead of the category…



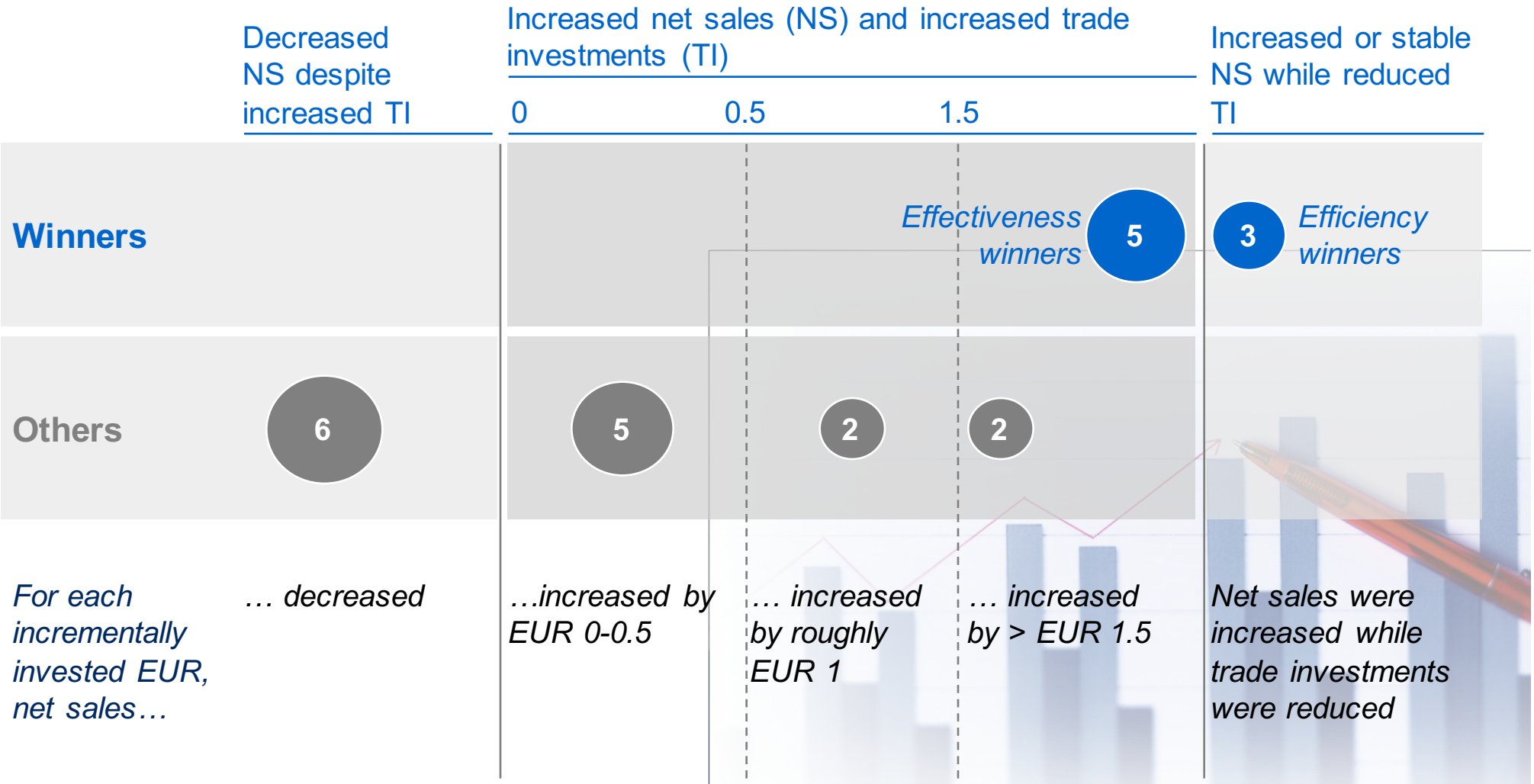


1 Indexed to category; reflected in percentage points

SOURCE: 2016 Europe CCM Survey, Nielsen AC, McKinsey; based on recent survey representing >50 companies in Europe

… they do so by taking the right trade investment decisions …

Distribution of trade ROI[1], n = 23[2]



1 Δnet sales/Δ trade investments
2 Two additional participants did not change trade investment; thus excluded from ROI analysis

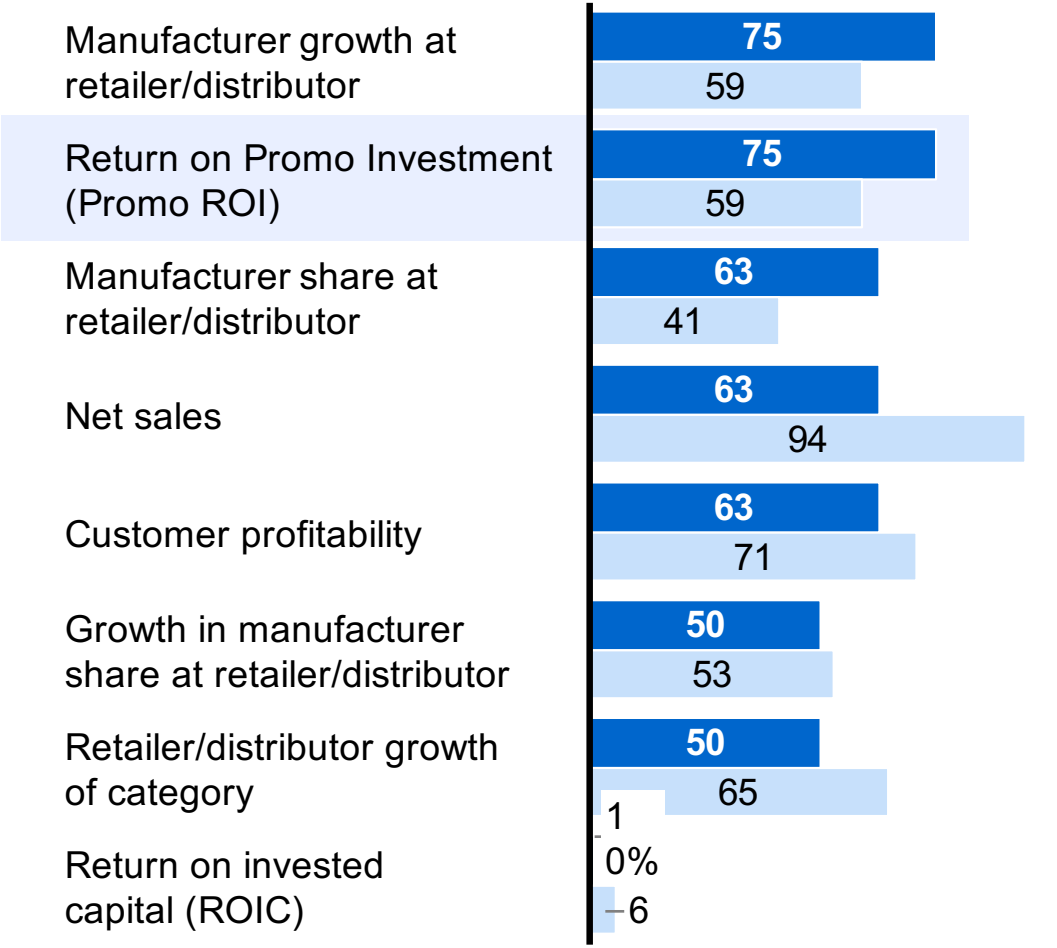
SOURCE: 2016 Europe CCM Survey, Nielsen AC, McKinsey; based on recent survey representing >50 companies in Europe

… and excelling in managing promotion investment strikes as one of the key differentiating factor distinguishing winners from others

Winners Others

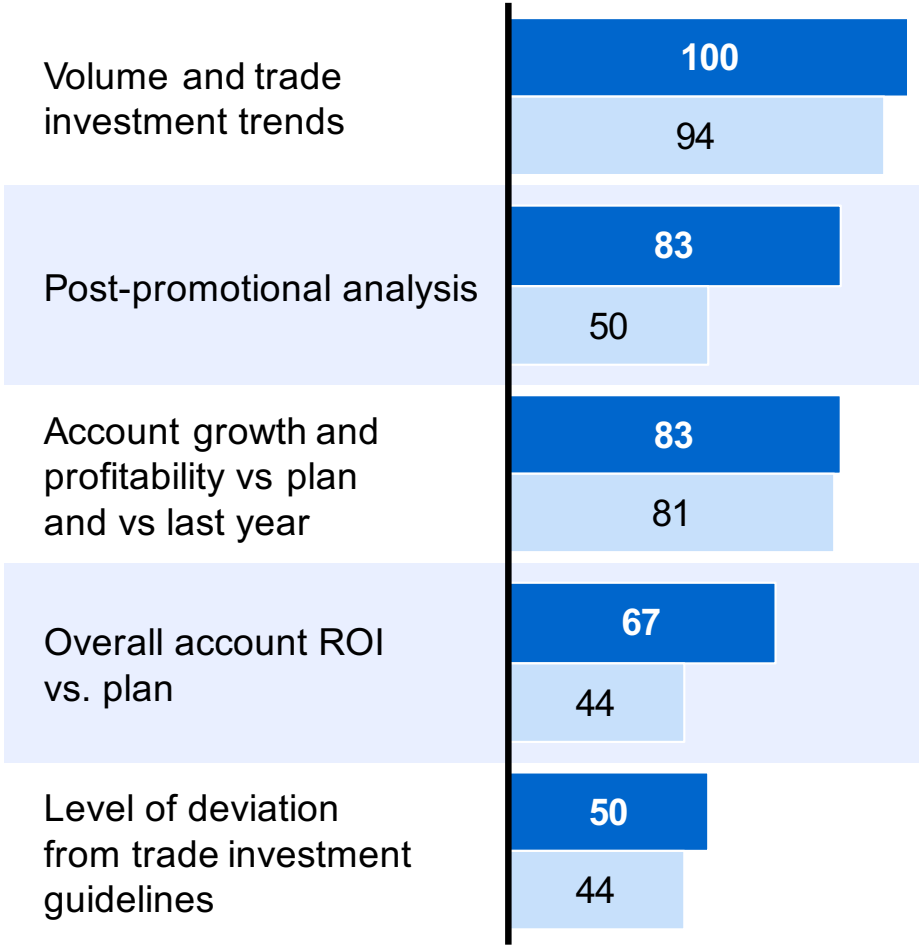
Winners more often focus on manufacturer growth/share and ROI…

Outcome-based factors for differentiating trade rates
% of respondents



Winners review their trade performance broader including account ROI and promo analysis…

Analytics used for formal reviews
% of respondents[1]



SOURCE: 2016 Europe CCM Survey: What outcome-based factors/metrics do you use for differentiating trade investment by customer/ retailer

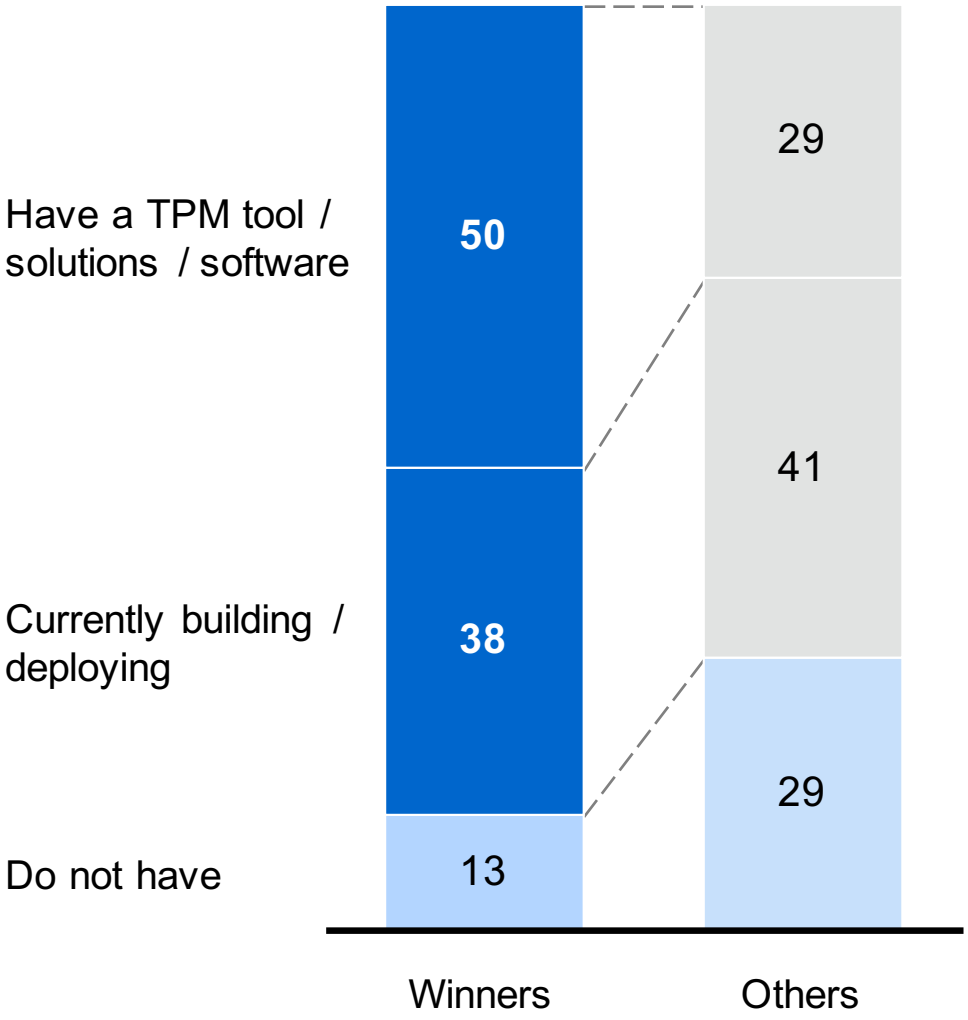
Winners also invest more in TPM and TPO solutions…

Winners Others

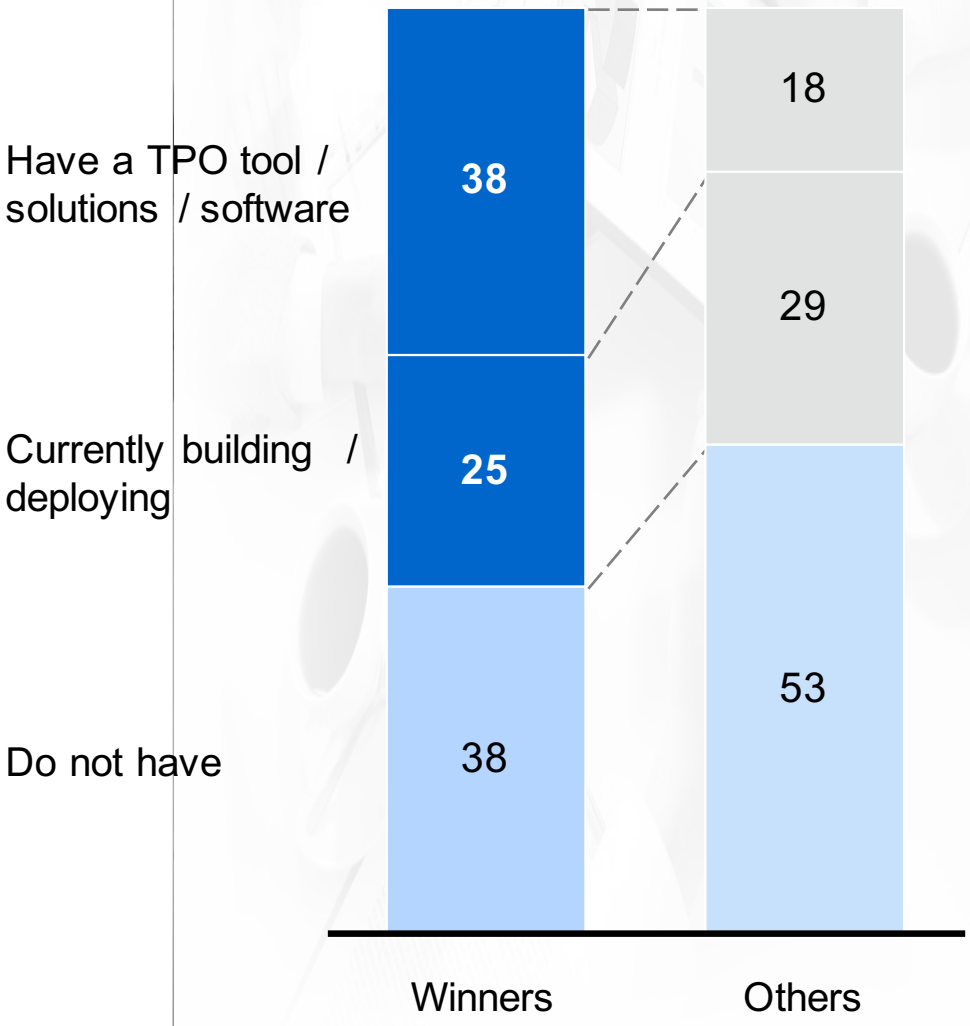
All winners have or are building a TPM tool…

… while ~2/3 also have or are building a TPO tool

Trade Promotion Management
% of respondents



Trade Promotion Optimization
% of respondents



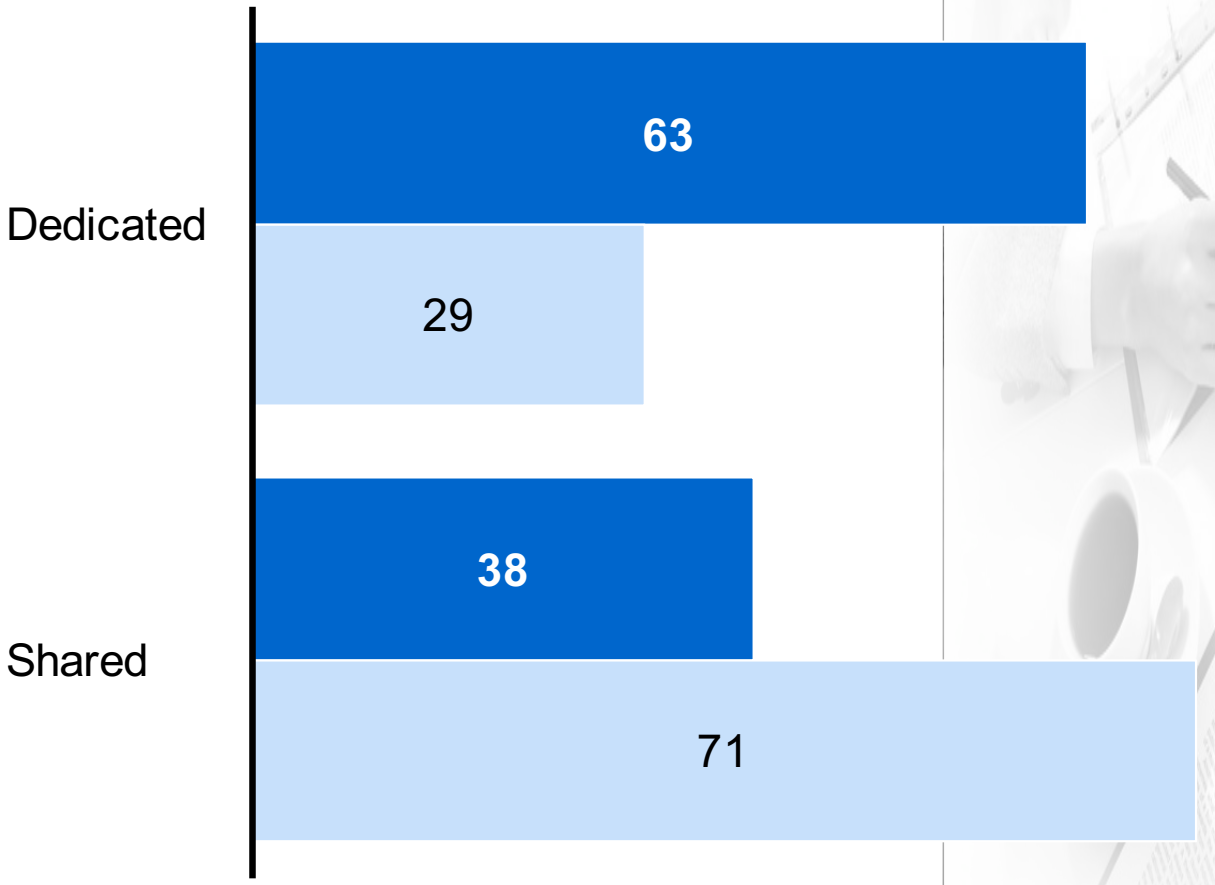
SOURCE: 2016 Europe CCM Survey: Which of the following describes your technology investments in Trade Promotion Management and Trade Promotion Optimization?

… as well as used by dedicated resources

Winners Others

Distribution of resources to manage promotion and trade investment

% of respondents



SOURCE: 2016 Europe CCM Survey: Are trade resources primarily dedicated or shared (i.e., responsibility is part of each person's job)?

These promo "winners" have relied on some tried and true practices to outperform their peers

What differentiates the winners…	How it benefits them…
Exceptional data granularity, mapping and consolidation	They know more than their customers in terms what drives the business, and who benefits
Automated data management and analytics allowing frequent refreshes	They know it sooner than their customers
Robust analysis that provides insights for each individual account	Ensures the sales team has clear, actionable guidance
Competitors' promotions analyzed with similar level of rigor	Provides early indications of changes in competitors strategies Ability to apply a full category lens, the way the retailer might look at it
Core group of dedicated promotions (and RGM) experts	Institutionalized learning and the engine for continuous improvement

SOURCE: McKinsey

However, the world is rapidly changing, making "winning" increasingly difficult

1. The tsunami of "big data" and "advanced analytics" has come to promotions, bringing deeper insight and greater precision
2. Learnings from the past lead to limited insights - new and easy to test ideas are required to identify innovative mechanics
3. Shoppers are looking for more and better deals, and are increasingly willing to look to non-traditional channels to find them
4. The online and offline worlds are blurring together and will continue doing so even further
5. Going forward, role of promotions will change significantly and manufacturers as well as retailers will have to adapt

SOURCE: McKinsey

1 Promotion analytics of today is already all about Big Data

A POS data
- Price to Consumer
- Volumes & Sales
- Distribution
- Granularity by channel/ region/outlet

B Sell-in Data
- Defining Criteria
- Volumes & Sales

C Event-level Promo Details (Internal Data)
- Event Dates
- Promotion Type
- Trade Investment (fixed and variable event costs), scan rate
- Promo Price & Volume to Retailer

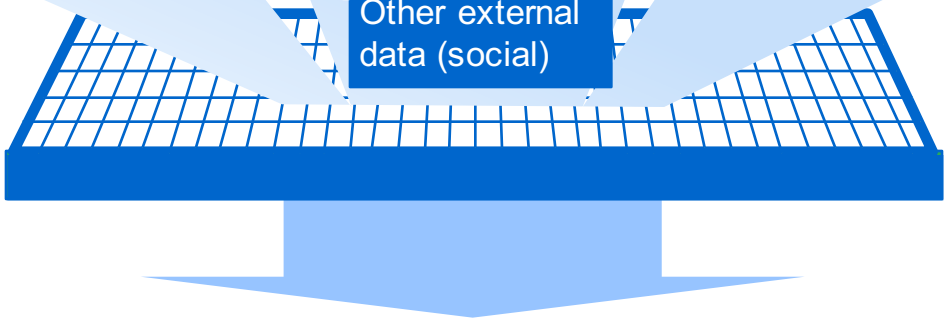
D Master Manufacturer Data & Economics
- Product details (SKU, Desc., Pack size)
- Retailer info
- Manufacturer Economics (Base margin, COGS)
- Pricing / Vol. shipment (Non promo PTC/PTR, Retailer base margin)

E Competition activity

F Execution data from field

G Other external data (social)

Mapping rules connecting the different data sets together



Promo event database as a single source of truth for effectiveness assessment

Periscope™ a McKinsey® Solution

SOURCE: McKinsey

1 Applying big data and advanced analytics to promotions
Example: Beverage company

Messy data	Washplant	Analytics lab	Event library	Impact examples
Assemble over a dozen data sources across the entire business…	*…Transform, clean, and integrate all the to be clean, useable, and aligned across sources…*	*…Run advanced analytical processes to generate unique, impact-oriented insights*	*…Create a central repository of data and analytics that drives value in making business decisions*	▪ Used Event Library insights to prove detriment of running 2 of 5 popular promotion types ▪ Basis for reintroduction of promotions that failed for extraneous reasons ▪ Showed how to better invest against key brands

nielsen POS

TERADATA

FeatureVision®

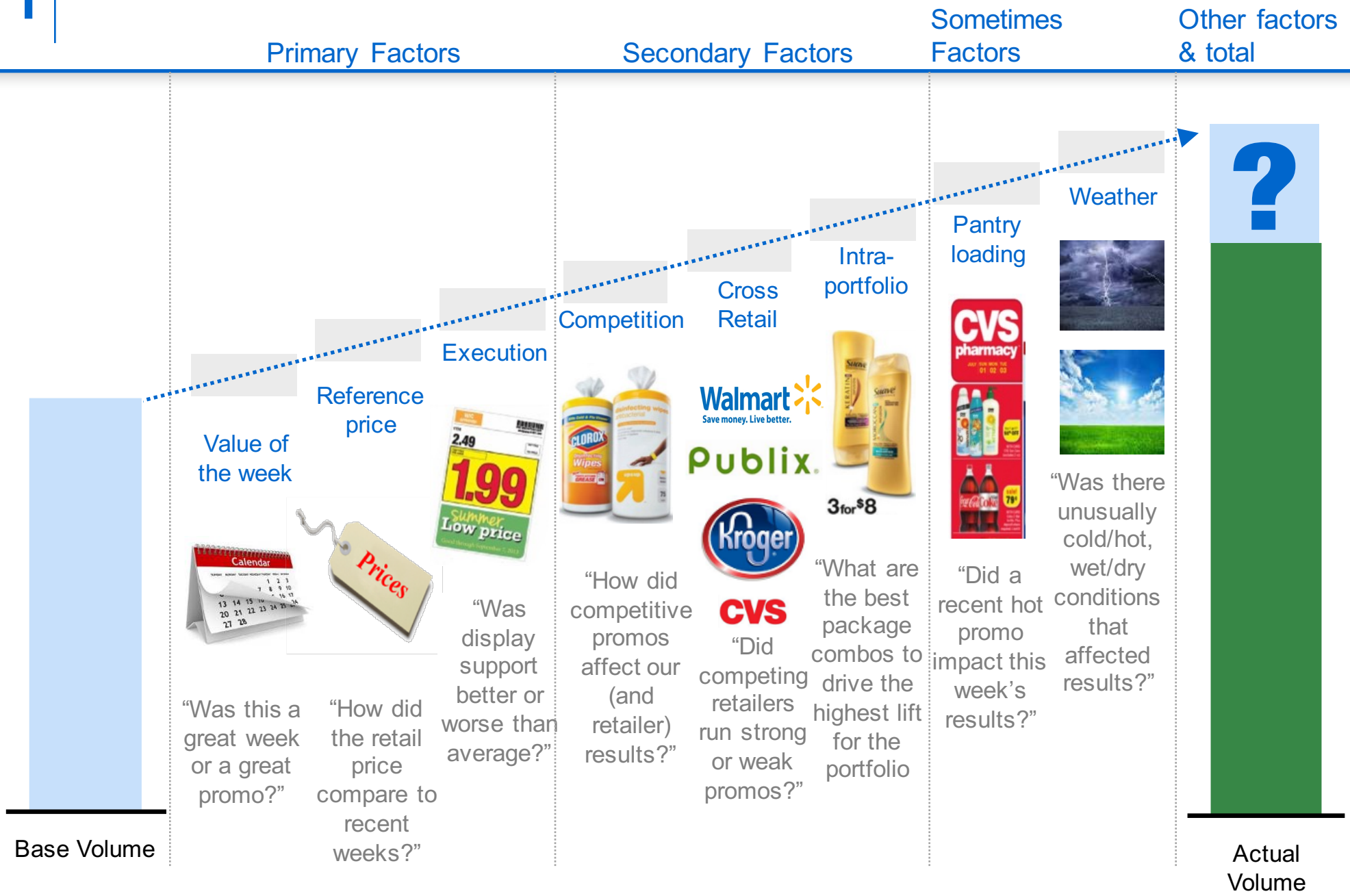
Price offer WEATHER TRENDS INTERNATIONAL

dunnhumby

Periscope™ a McKinsey® Solution

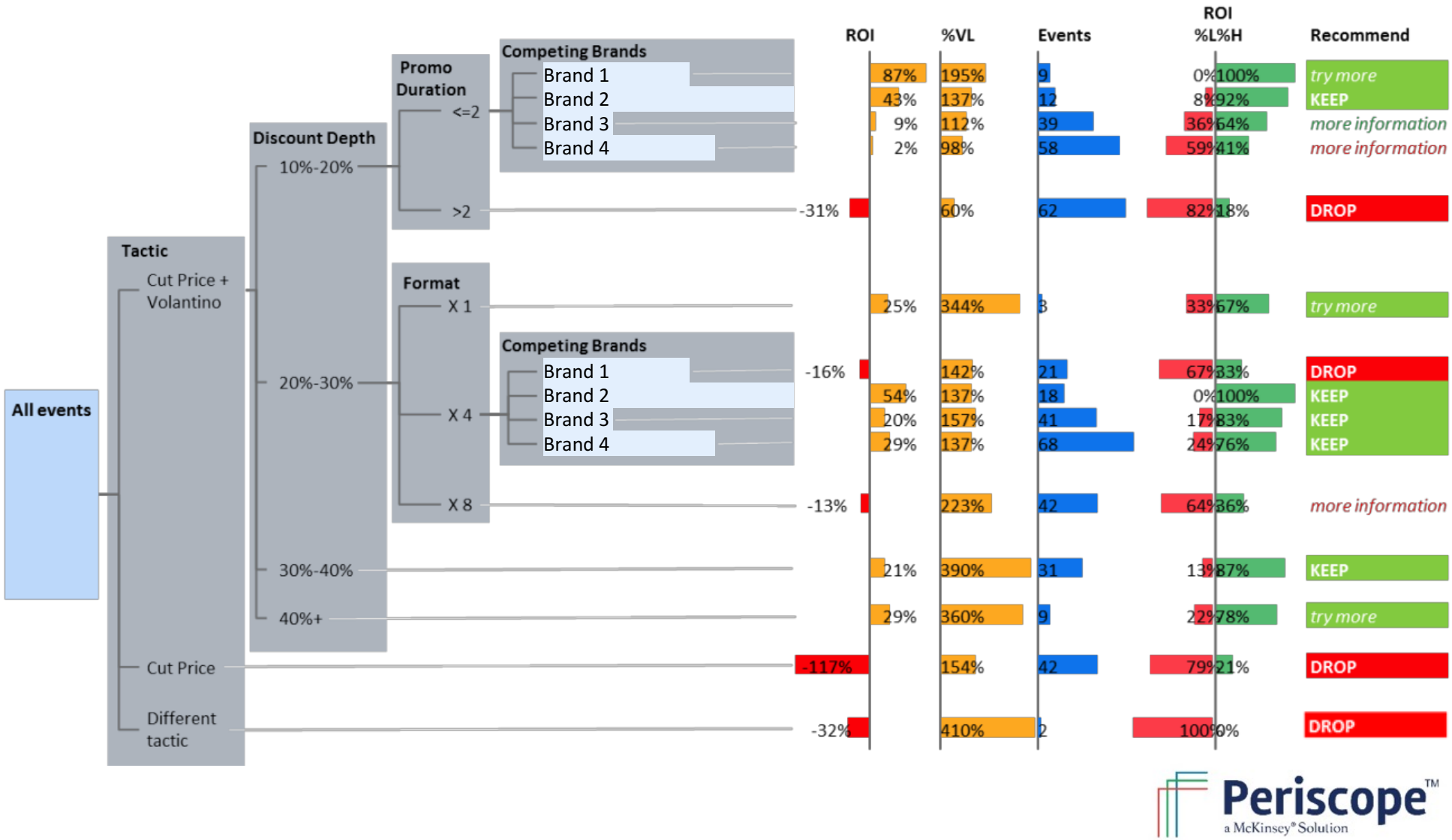
SOURCE: McKinsey

1 Example: DNA of an event



SOURCE: McKinsey

1 Post event pattern recognition engine – example of machine learning applied on the area of promotion analytics



SOURCE: Periscope Promotion Advisor PEA Pattern Recognition

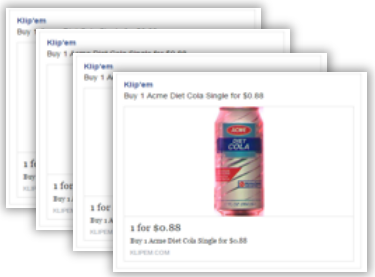
2 Offer innovation: way to explore new offer tactics and mechanics in light of lowering returns for traditional offer schemes

Periscope™ a McKinsey® Solution

Offer generation	Micro-testing	Analytics & rollout

Offer generation

Generate hundreds of virtual test offers



eversight

Example of offers characteristic

- Multibuy quantities
- Open vs. must buy
- Price points
- % off vs. $ off
- Artwork and claims language
- Cross-merchandising
- Consumer segment targeting
- Geographic targeting
- Timing, Seasonal, Holiday, etc.
- Consumer and retailer specific segmenting

Micro-testing

Digitally micro-test with small groups of real shoppers in days

Test consumer engagement in a low risk environment:

- Facebook or other digital platforms to engage
- Reward App to redeem consumers based on proven purchase of a regular product

Analytics & rollout

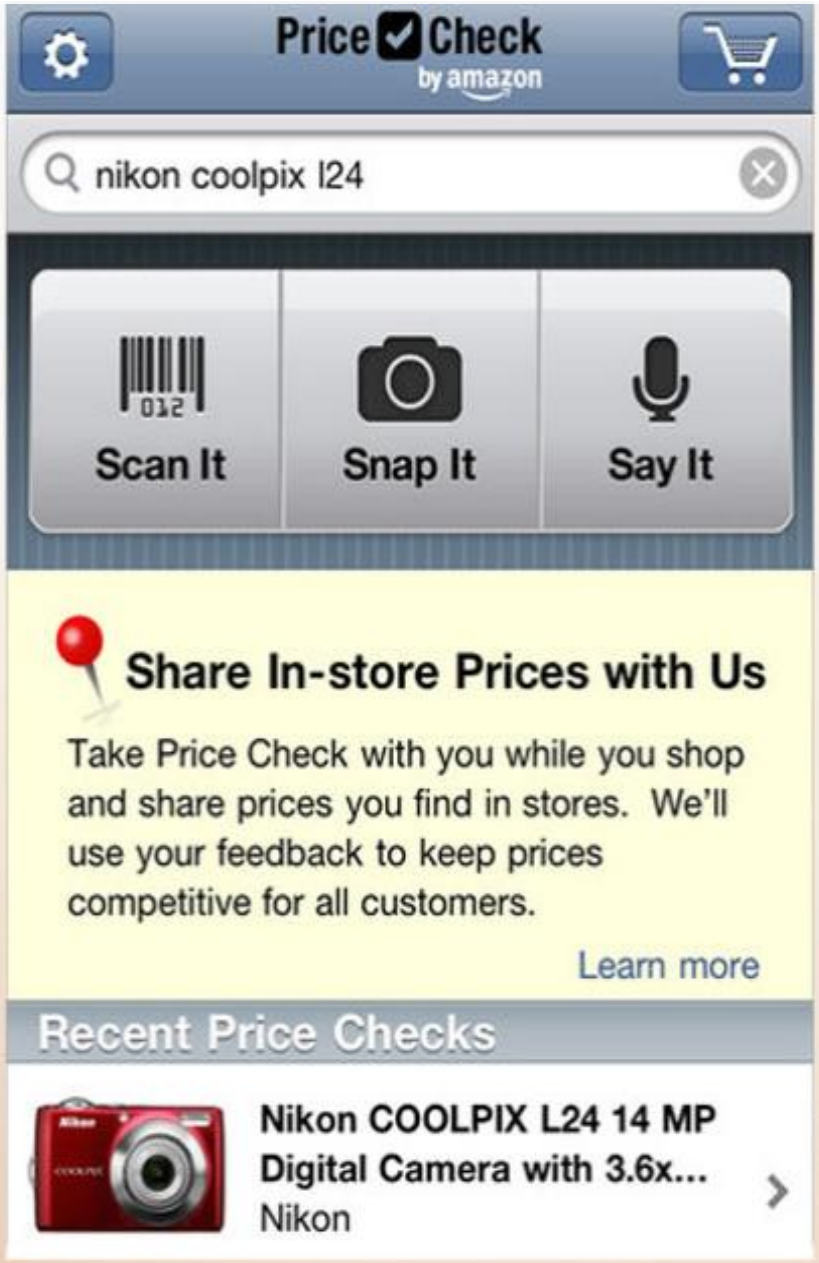
Identify the best promotions for roll-out

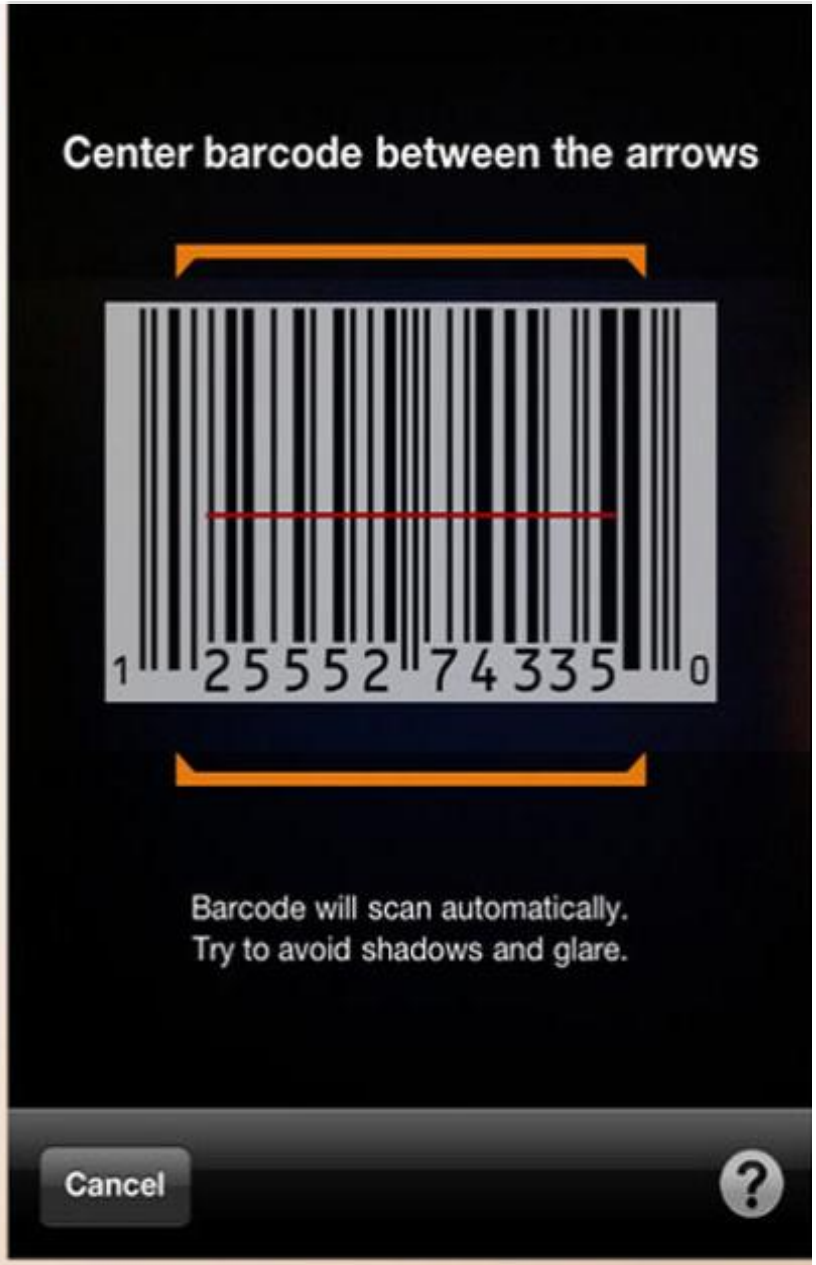
SOURCE: Periscope, a McKinsey Solution; Eversight

3 Shoppers have many apps to price compare and search for deals…

SOURCE: Internet search

3 Shoppers have many apps to price compare and search for deals…

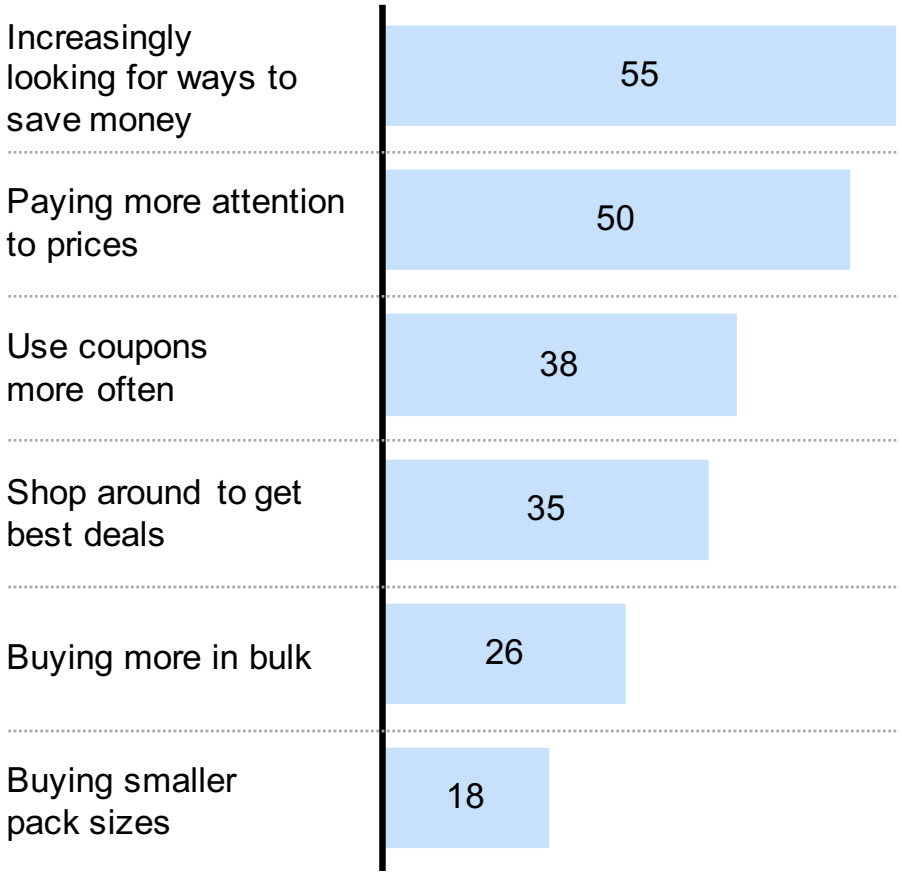




App encourages competitive "showrooming" and enables consumers to view detailed price / product comparisons on millions of products sold on Amazon

3 … and their desire to look for more and better deals is increasingly taking them to new channels

Level of consumer agreement with changes in behavior regarding groceries and household goods over last 12 months



Channel shifting continues towards online, dollar, club, and mass

1 Covers changes in household budget spending on groceries and household goods in the last 12 months
SOURCE: McKinsey Consumer Sentiment Survey X Sep 2014)

4 Retail environment is developing into a truly omnichannel mix – online gaining strong momentum

UK Grocery Example:

From "Big 4"

To multichannel, discounters and pure play

What this means for all

- Pressure to provide compelling offer/ specific assortment across a broader range of retail competitors/ formats and promotion channels – and driven by more than just the traditional large retailers
- All large retailers expand their multichannel setup
- Everyday shelf prices will change by retailer more frequently leading to demands for more dynamic margin funding models (i.e., trade)

SOURCE: Press clippings

4 Some retailers have started a true digital revolution form inside which goes well beyond e-commerce

Walmart
Save money. Live better.

Adchemy February 2010	Set Direction April 2011	Kosmix May 2011	OneRiot September 2011	Grabble November 2011
Small Society February 2010	Social Calendar April 2011	Tasty Labs May 2011	OneOps September 2011	Inkiru November 2011
Torbit July 2013	Yumprint February 2014	Adchemy May 2014	Stylr June 2014	Luvocracy July 2014

Each week, we serve nearly 260 million customers who visit our 11,504 stores under 65 banners in 28 countries and ecommerce websites and apps in 11 countries. With revenue of $486 billion in 2015, @WalmartLabs employs more than 2 million associates worldwide.

SOURCE: Walmart labs

4 Manufactures are also going digital – example P&G everyday, portal for consumers to interact with brands, browse content and look for deals

Different 'departments' across P&G's wide product categories for users' easy browsing

Value seeking customers can directly access coupons and promotions here or look for product-specific ones via the categories

Registration includes a short customer profile survey so the portal can provide more personalized content and promotions

Shortcuts to P&G's different social media touchpoints

Options to join different interest groups

Popular content highlighted in a navigation bar on the left

Online purchases routed to P&G's direct to consumer channel (P&G Shop) or other e-retailer partners