

Achieving Mutual Growth through Data Centered Collaboration



How to Make Price and Promotion Work Harder Actionable Insights to Improve ROI

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“The facts ... just the facts!”





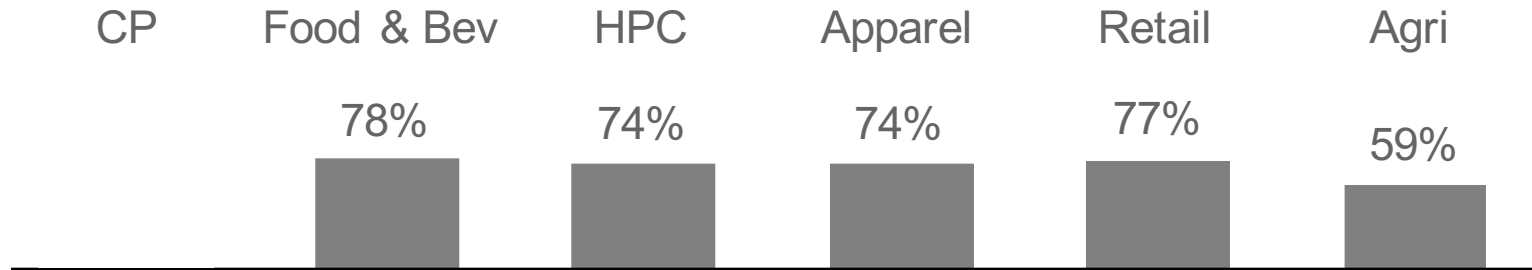
At the end of this session, you will be able to...

- ▶ Identify how you benchmark against other companies on price and promotion performance
- ▶ Create the business case to make changes in how you price and promote
- ▶ Take specific actions to improve the profitability of your pricing and promotions
- ▶ Get started in improving top- and bottom-line results (should you decide to take action)

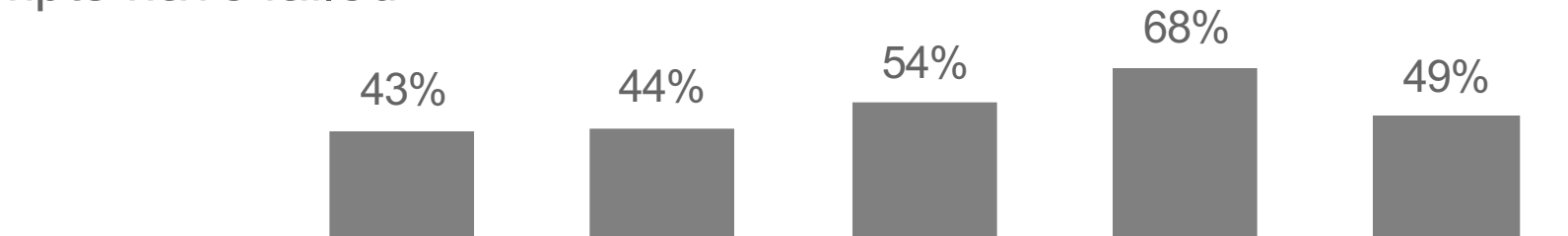


How can companies manage trade spend while optimizing price and promotion decisions for profitable growth?

CPG companies are struggling to grow revenue and profitability...



...and, for many, previous attempts have failed



Source: EY Consumer Products and Retail Survey, 2016

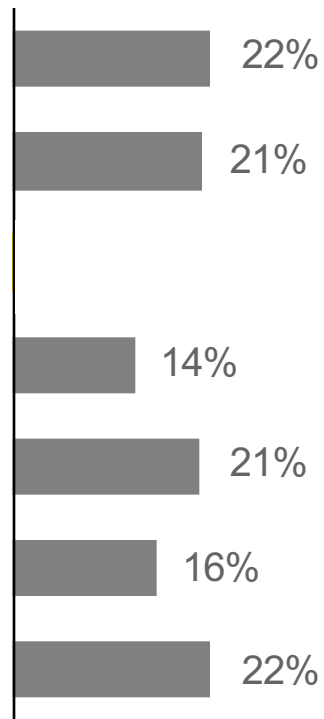


How can companies manage trade spend while optimizing price and promotion decisions for profitable growth? (Cont'd)

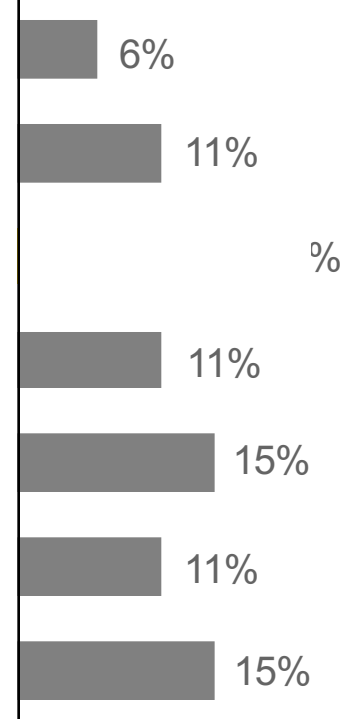
Few companies are leveraging analytics for pricing and promotion decisions...

...and, as a result, they do not understand the true profitability of promotion spend

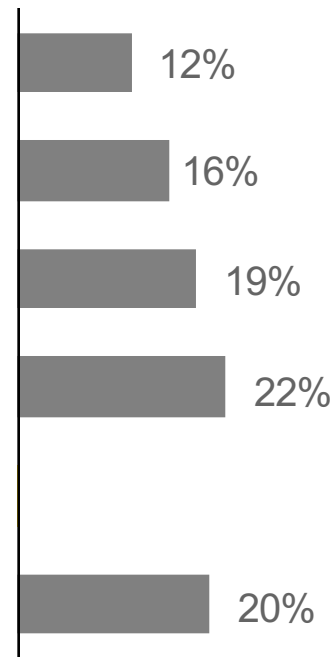
Manufacturers



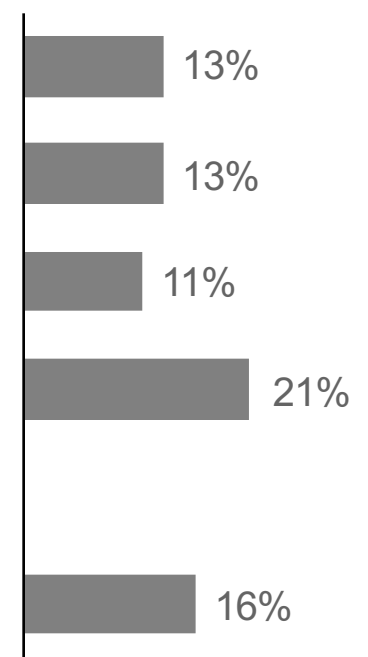
Retailers



Manufacturers



Retailers



Source: EY Consumer Products and Retail Survey, 2016



To address this, EY—with Sequoya and Promotion Optimization Institute—analyzed over 2,000 price and promotion events

25 promoted product groups (PPGs)

- ▶ Food
- ▶ Beverage
- ▶ Health and Personal Care (H&PC)

104 weeks of data

(01/01/14-12/31/15)

- ▶ Syndicated data
- ▶ Promotion calendars
- ▶ Financial costs/margins

14 retailers

- ▶ Grocery
- ▶ Mass
- ▶ Drug

Models included analysis of:

- ▶ Everyday and promoted price
- ▶ Feature and display
- ▶ Consumer overlays (e.g., shopper marketing)
- ▶ Holiday / seasonality impacts
- ▶ Pantry loading and cannibalization effects

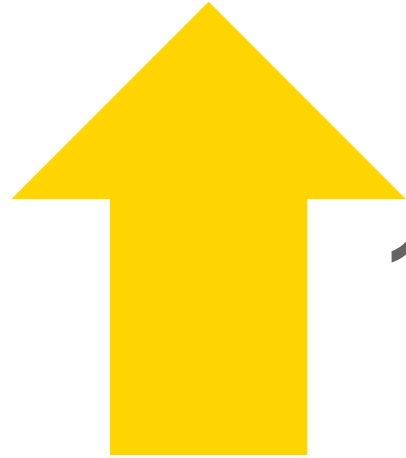


So what did we find?

- ▶ Companies spend close to 20% of sales on promotion
- ▶ Nearly 70% of events do **not** breakeven
- ▶ Average ROI is 95% (Breakeven = 100%)
- ▶ Average ACV promotion compliance is 67%
- ▶ Average everyday price elasticity = -1.1



The good news? Simulation showed if companies adopt improved price and promotion practices, benefits can be substantial



1-4% in volume



8-10% in revenue



8-12% in gross profit*

*Net of trade spend



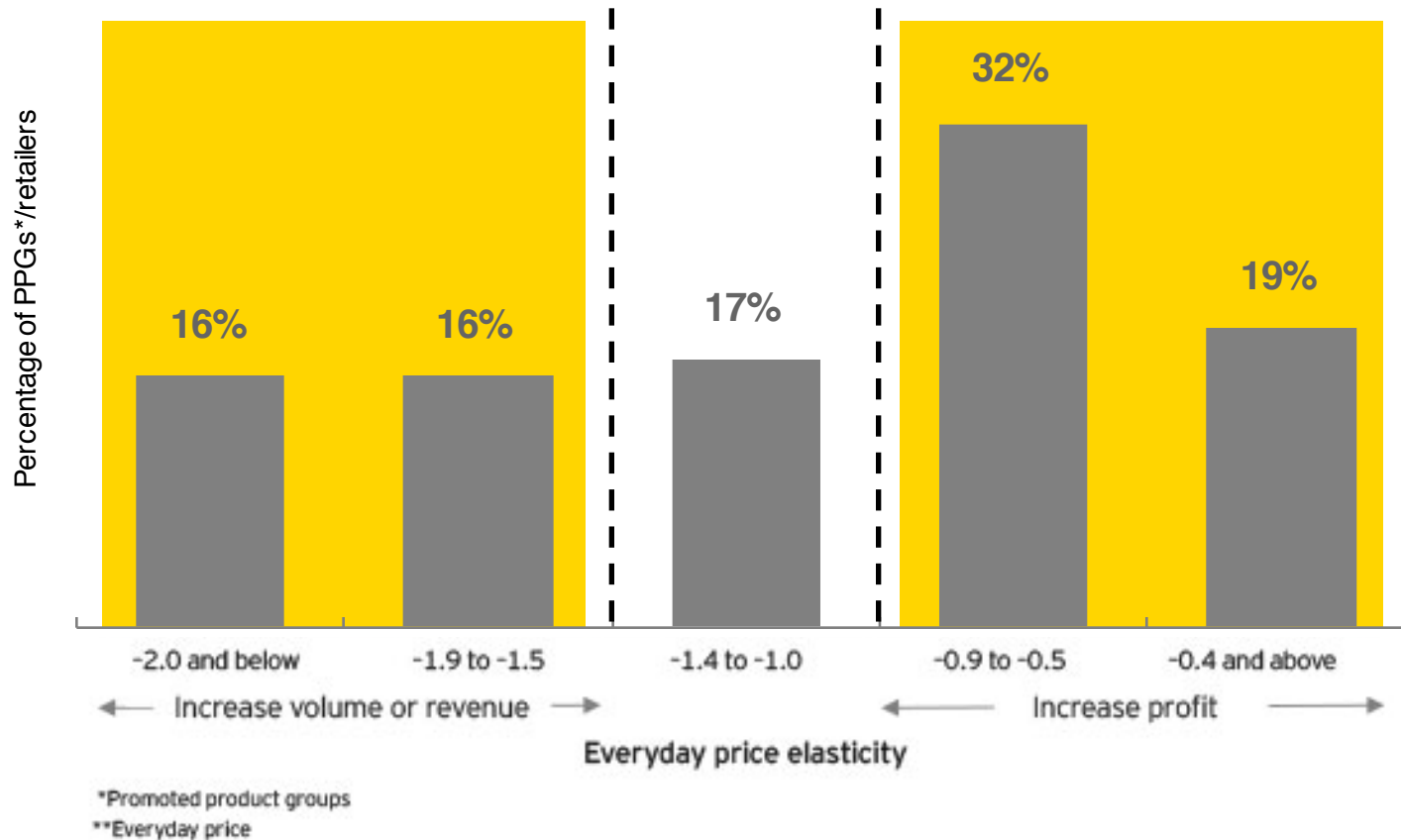
So how can companies achieve greater profitability without sacrificing significant revenue?



1

Optimize everyday prices

For more than 80% of the PPGs and retailers, companies can improve revenue, profitability, or both by changing everyday price

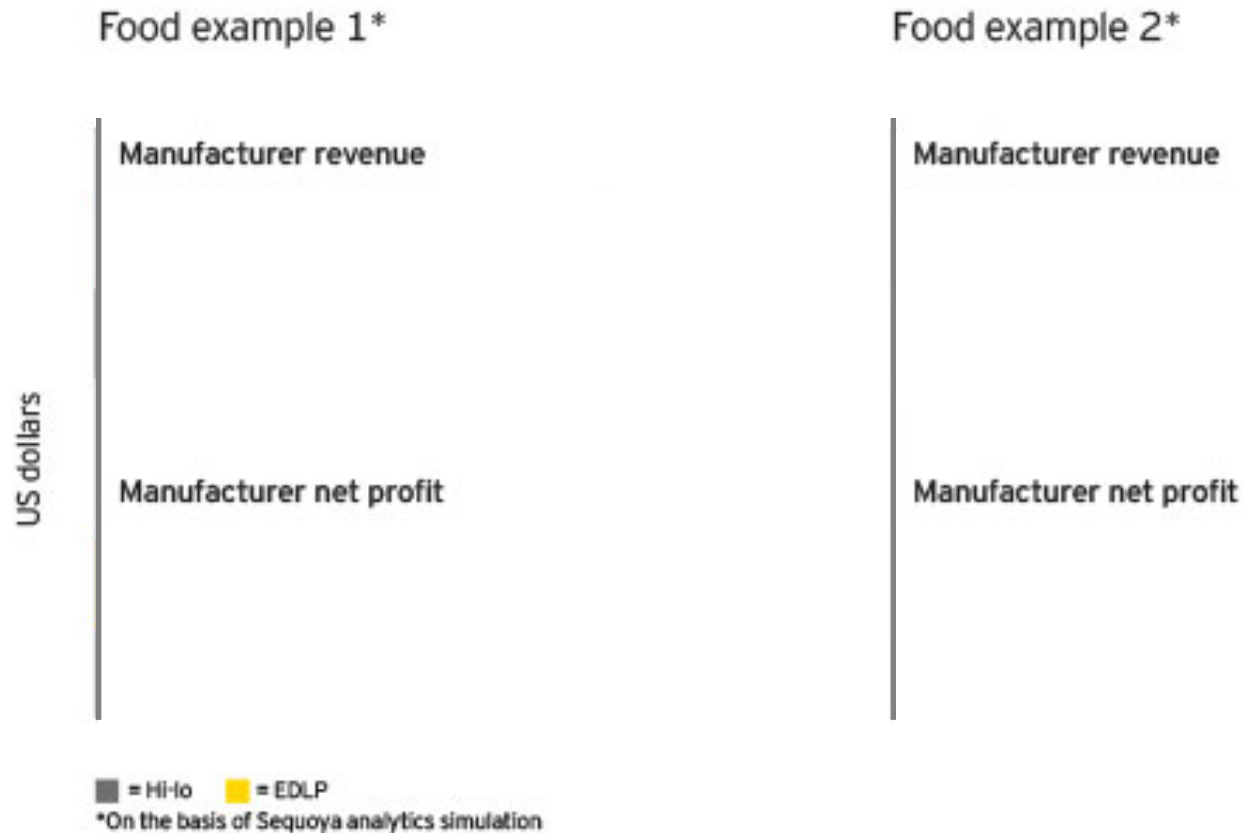




1

Optimize everyday prices

If PPGs are more sensitive to everyday price changes than promotion discounts, it is time to consider an EDLP (or hybrid) approach

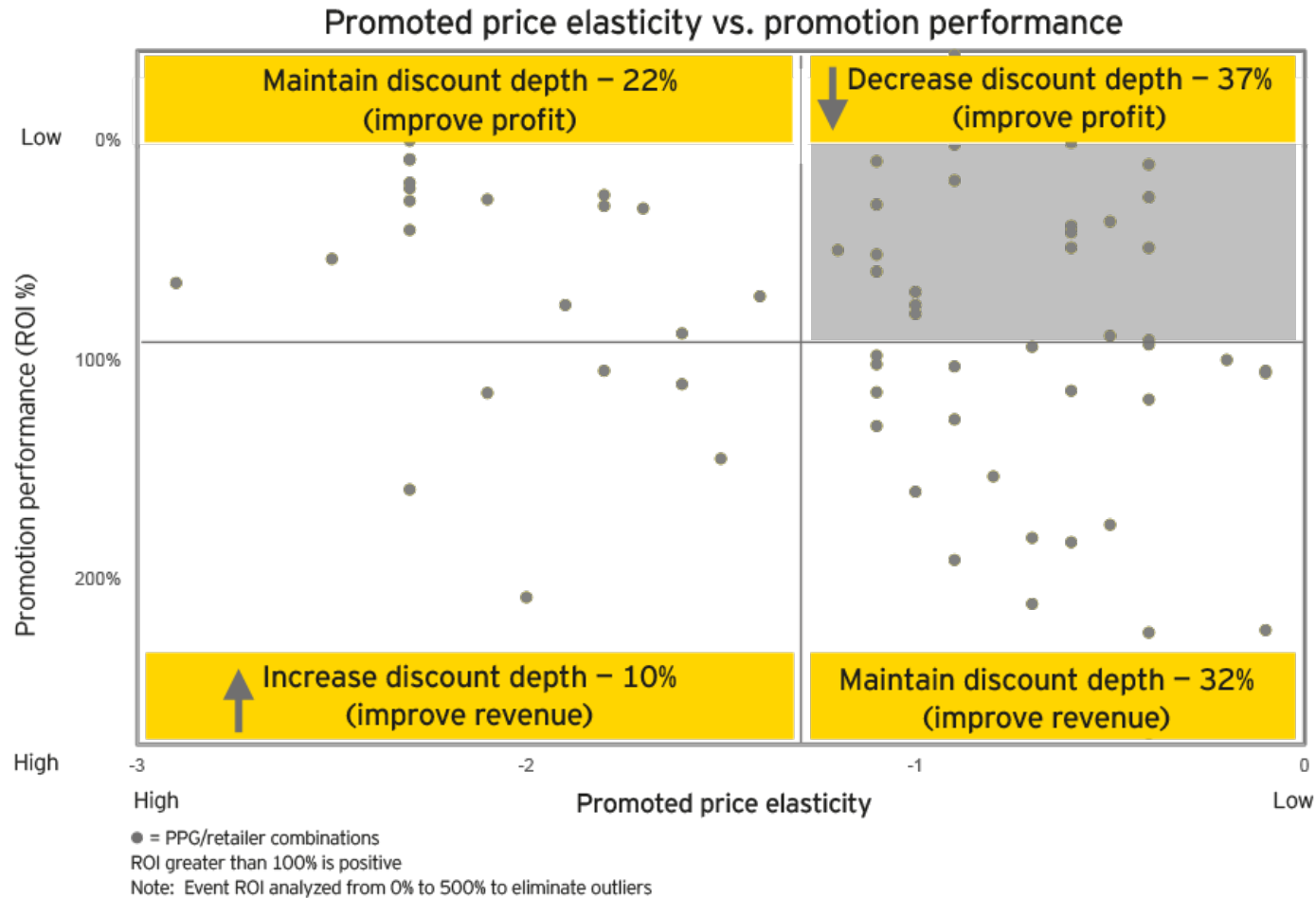




2

Use smaller discounts – only go deep for feature or display

Nearly 40% of promotion events can improve profitability by reducing depth of discount



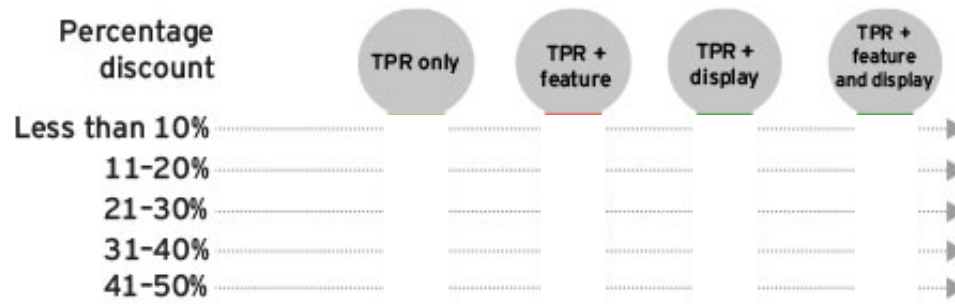


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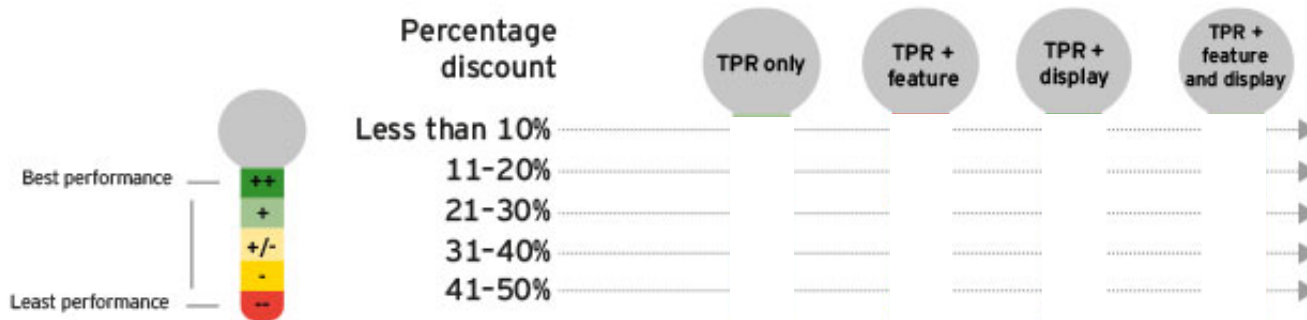
Use smaller discounts – only go deep for feature or display

Events with merchandising (especially displays) produce higher performance, while those without merchandising (TPR only) require discounts of 20% or below to deliver better results

Average manufacturer incremental revenue



Average manufacturer incremental net profit

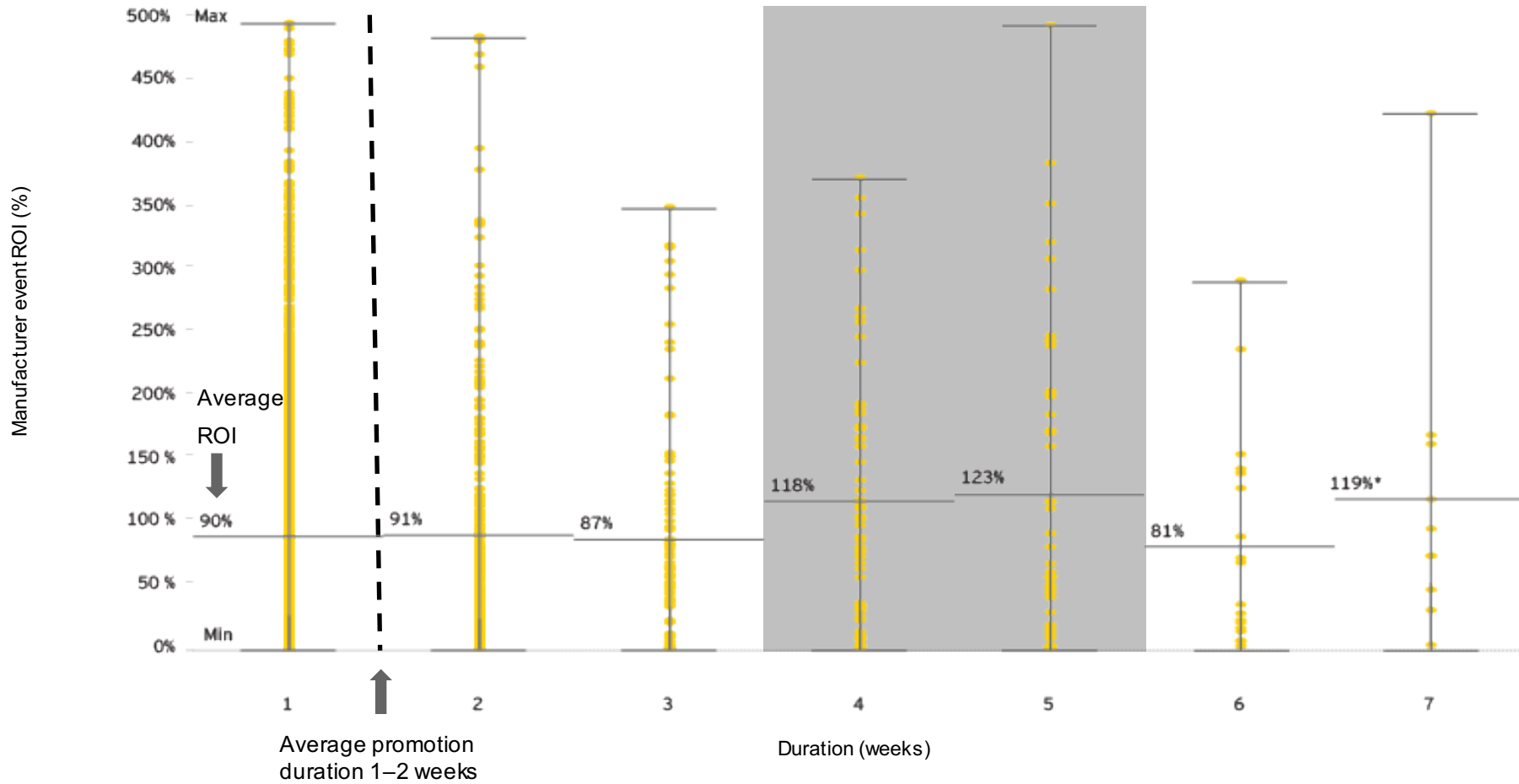




3

Rethink duration, timing, shopper marketing and co-promotions

Most companies achieve optimal ROI between 4-5 weeks



*Due to the lower relative number of events from the sample run at 7 weeks, the average ROI (although high) was not counted as having optimal duration.



3

Rethink duration, timing, shopper marketing and co-promotions

In a few examples we studied, companies could have increased volume by 30% and revenue by 33% by running separate promotions

Grocery channel - beverage category example*

- Co-promotion (PPG1 + PPG2)
- Separate promotion of PPG1 and PPG2

*On the basis of Sequoya analytics simulation

Incremental volume (units)

Incremental revenue (dollars)



4

Create promotion strategies at the retailer and PPG level

A channel category price/promotion strategy is a good start but not enough
(especially for large, strategic accounts)

Little differentiation in promotion strategies

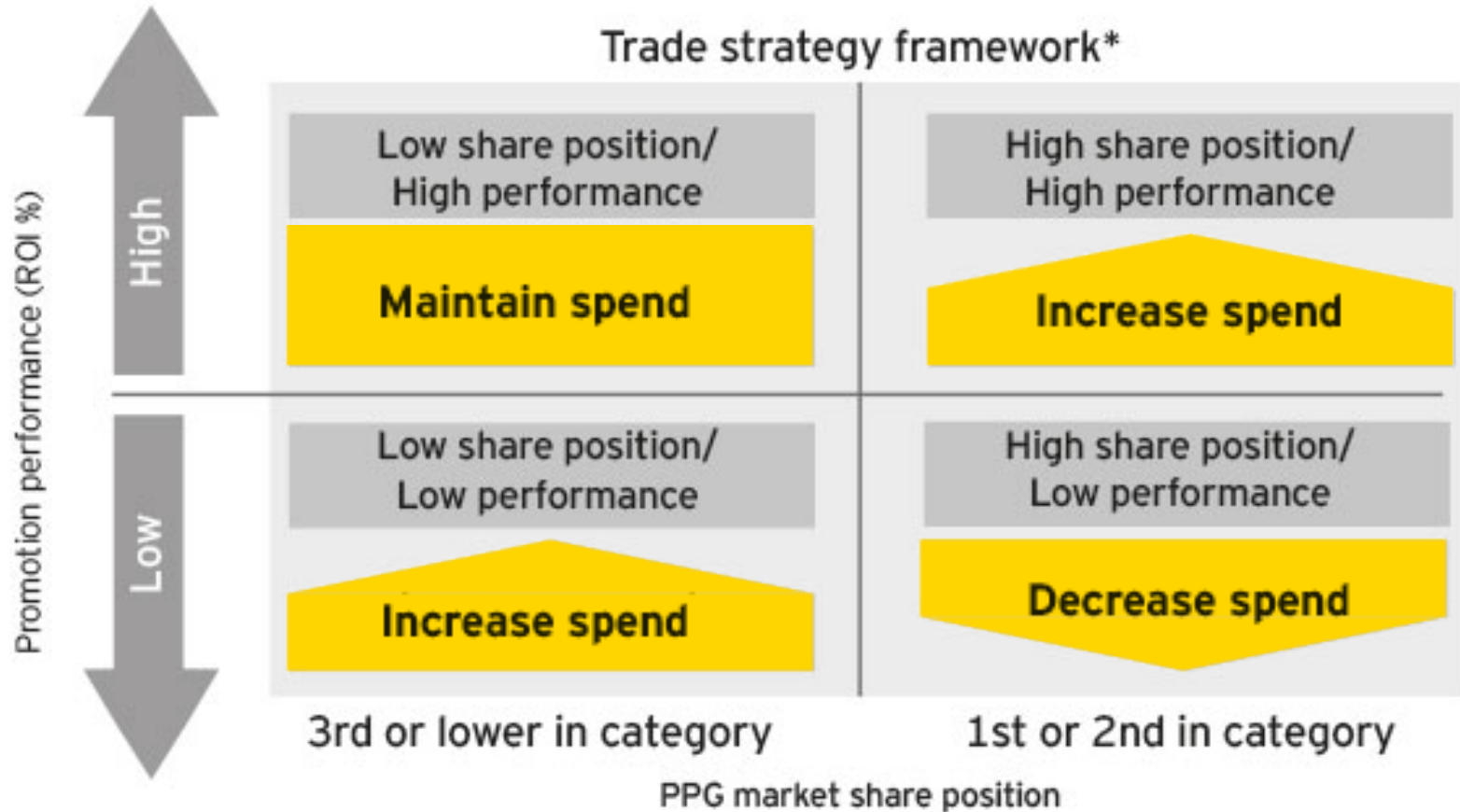




4

Create promotion strategies at the retailer and PPG level

Market share portion and promotion performance can help identify trade spend strategies



*Strategies are directional and should be tested or validated based on PPG/retailer analysis



5

Build profits for both the retailer and the manufacturer

Over one-third of events generate incremental profits for both manufacturers and retailers



Characteristics of “win-win” opportunities

- ▶ 60 percentage points greater uplift for manufacturer and retailer
- ▶ Over 10x more manufacturer incremental revenue per event
- ▶ \$110K more manufacturer incremental net profit per event

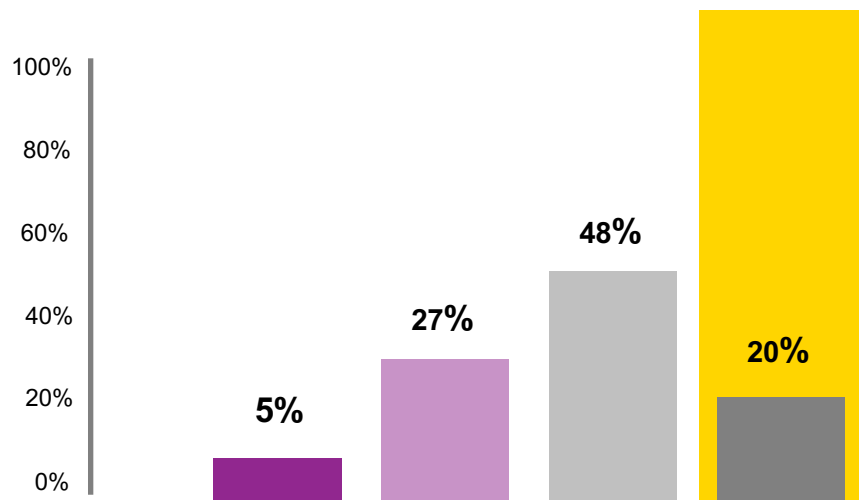


5

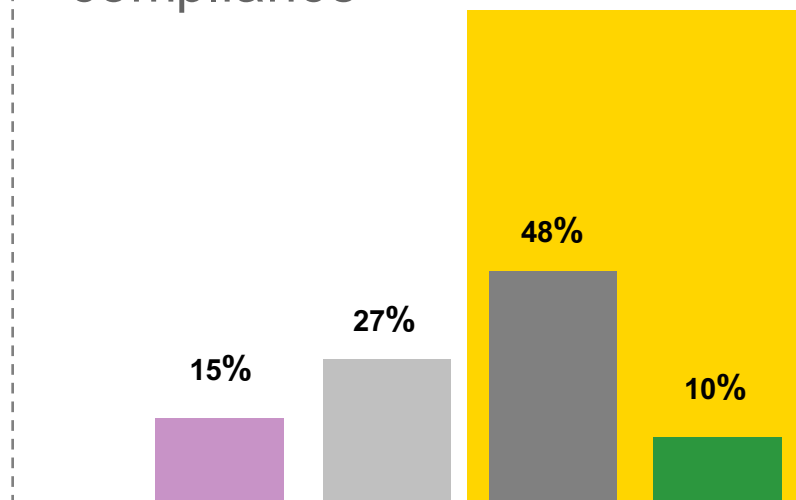
Build profits for both the retailer and the manufacturer

...however, there is still room for improvement

CPG manufacturers are not satisfied with ability to execute...



...and, consequently, have difficulty getting in-store compliance



% of respondents

■ Strongly disagree
 ■ Disagree
 ■ Somewhat agree
 ■ Agree
 ■ Strongly agree

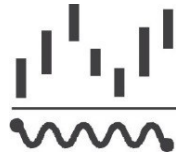
Source: POI TPX and Retail Execution Survey, 2015



Getting to the prize



Set clear priorities



Embrace analytics



Work together



Build capabilities



Go Cubs go!

