



**Promotion Optimization Institute, LLC**

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# Personalized Offers: The Cure for Tired, Ineffective Promotions

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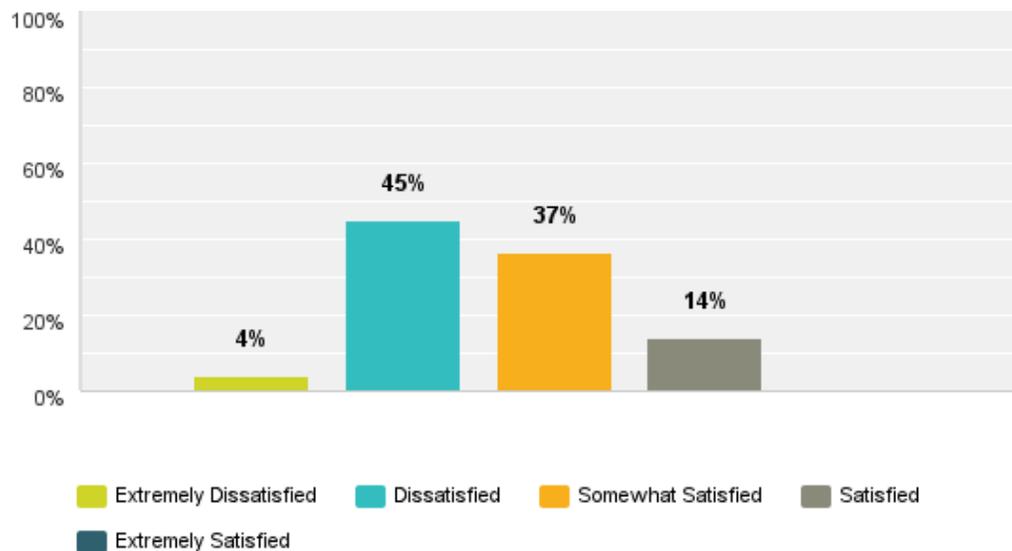
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We at the Promotion Optimization Institute (POI) believe personalized offers are a compelling complement to traditional promotional strategies that, once operating at scale, can greatly augment your bottom line, generate greater levels of shopper loyalty, and create lasting competitive differentiation by making the right offer to the right person at the right point in time, and for a long period of time. Retailers and CPGs should collaborate to accelerate progress towards making this a quickly-delivered and long-lasting reality. As personalized offers are a very new area within consumer goods, we teamed up with Precima to describe some of the best practices, case examples, and benefits for retailers and manufacturers.

## The Present State of Trade Promotions and Why It Needs to Change

Both retailers and manufacturers continue to cite ineffective promotions as a top issue. But manufacturers, in particular, feel the pain of their inability to manage promotions. In the recent iteration of the annual POI industry survey concluded in January, 2017 we received the following insight:

**Chart 1: Responses by manufacturers to the statement: “You are satisfied with your ability to manage trade promotions.”**



Source: POI Research. The 2016/2017 TPx and Retail Execution Survey.

We find it very telling that 77 manufacturers of varying size and geographic presence express such a level of dissatisfaction. We also find it telling that none are extremely satisfied. We further contend that “somewhat satisfied” is not the basis for any competitive advantage, but an admission that only about one-third of promotions actually break even.

In looking at how retailers view the execution of promotions, we do not have mirrored data. However, promotional outcomes matter less to retailers because ineffective promotions are a cost to manufactures while mostly an opportunity cost for retailers. Nevertheless, while receiving promotional monies from manufacturers is a benefit to retailers, more successful promotional outcomes would be an even greater benefit if they could be consistently deployed in ways that would drive significant incremental benefits— such as traffic, revenue, and profits— rather than just bolster margins. Thus, the retailers’ issue lies in making changes to their operating models that would enable them to get more bang for the proverbial buck.

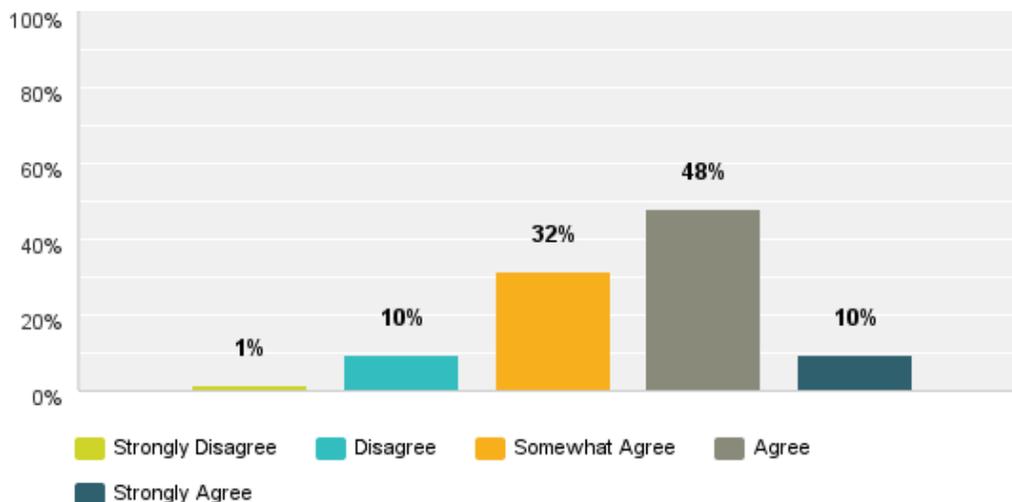
Recent research bears this out:

*“According to Accenture’s research, retailers see inflexible operating models as a core challenge, with only 17 percent (compared to 25 percent of other industry respondents) saying they have an agile operating model that can adapt to consistently deliver on strategy and execute activities that drive value for the organization. Barriers to advancing their operating models, according to retail executives surveyed, include technology (cited by 46 percent), the cost of the effort (42 percent) and experience to lead the transformation (42 percent).”<sup>2</sup>*

It has been pointed out that historically about half of promotions do not work, and it has been unpredictable which promotions will and will not be successful. This is no longer the case. Improved access to data and analytics now allows CPGs and retailers to identify good and bad promotions, and the results do not look so good. According to an industry analysis by Nielsen of over 100 million promotions, fully 2/3 of trade promotions do not so much as break even. Further, 22% of promotions did not generate any sales lift, let alone break even.<sup>1</sup> This continues to be the case despite decades of both manufacturer and retailer efforts to improve promotional outcomes. Despite awareness of the problem, promotional results have not improved (according to the Nielsen study, they are getting worse), the monies spent on trade promotions have only increased, and an acceptance of ineffective promotions has continued as the status quo.

Because many of the same promotions are run year after year with largely the same results, the monies spent on them have effectively become a cost of doing business for manufacturers (instead of an investment in mutual growth) and margin enhancement for retailers. This is borne out by the fact that retailers often do not execute what has been agreed upon. This may result from their executional challenges or their choice not to execute a tired and ineffective promotion (but instead to do something they feel is better). Interviews we have conducted with both manufacturers and retailers point to the latter, and show that manufacturers allow this to happen as part of the “cost of doing business approach.” The recent POI survey captures this manufacturer sentiment as follows:

**Chart 2: Responses by manufacturers to the statement: You have issues with “putting together a good plan, but not getting retailers to execute it as agreed upon (in other words, having compliance issues).”**



Source: POI Research. The 2016/2017 TPx and Retail Execution Survey.

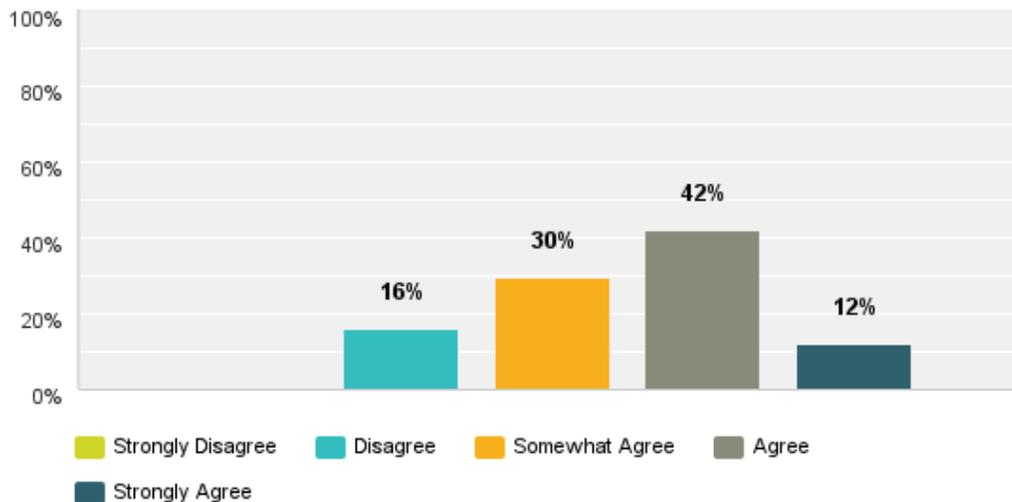
*Clearly there is a need for a new promotional model that both manufacturers and retailers will put their combined efforts behind.*

The responses overwhelmingly point to collaboration, buy-in, and execution issues on the promotional activity. This could be at the store banner level or perhaps with some individual stores. Nevertheless, it is pervasive in the marketplace and we have seen the same magnitude of results regarding the same questions in previous surveys.

One nagging question is whether the lack of agreement on what is to be executed is contributing to the lack of promotional inefficiencies in the marketplace, or if retailers taking the promotional monies and not executing per the agreement is actually driving the one-third of promotions that actually work! Clearly there is a need for a new promotional model that both manufacturers and retailers will put their combined efforts behind.

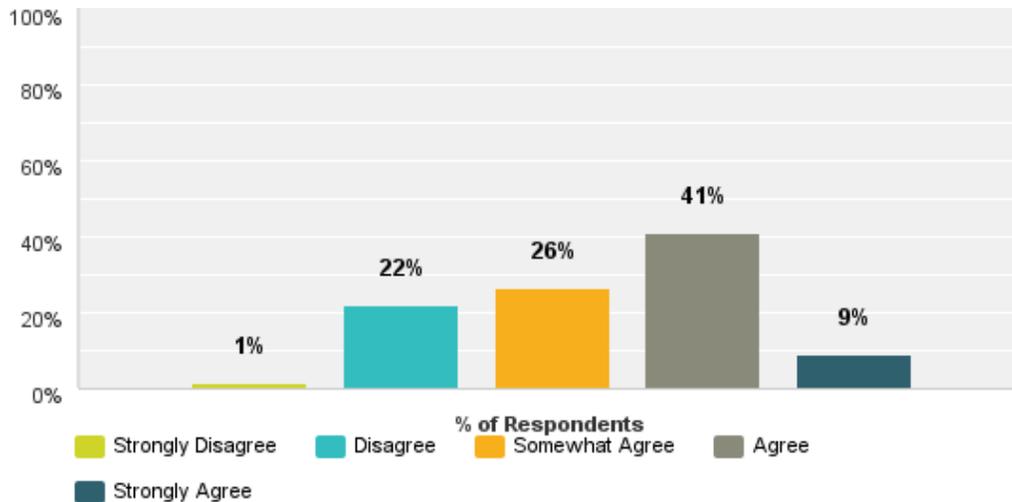
Another aspect that lends itself to promotional inefficiency is the human factor. Trade promotions can be complicated bundles of SKUs, store clusters, and tactics. The systems used to manage them are complex as well. POI survey respondents were very clear in their assessment that there are human shortcomings as follows:

**Charts 3 and 4: Responses by manufacturers to the statement: (You have) “challenges finding qualified personnel who can use and understand existing solutions.”**



Source: POI Research. The 2016/2017 TPx and Retail Execution Survey.

The results of the survey from 2015 show a negative trend on this point — that it is actually getting harder to find qualified personnel:



Source: POI Research. The 2015 (prior year) TPx and Retail Execution Survey.

Thus, for manufacturers we believe that a contributing factor to failed promotions is because there is a tendency to copy the same promotion from the previous year and to not fully utilize the analytical capabilities in a TPx system that could improve a promotional outcome. Retailers have similar issues; they frequently don't have the necessary analytical capabilities or people to undertake the correct analyses. This can lead to an associated issue: limited time to assess past promotions and plan different promotions going forward. Consistency of approach (or lack of it) across the manufacturer-retailer trading table is another contributing factor that can lead to a lack of trust and, ultimately, to retailers executing promotions that are different from what was discussed with manufacturers.

We also believe that there is considerable complexity around promotions on the part of the retailer as well, which may cause the “copy and repeat” behavior to continue. This is highlighted in the 2016 Kantar Retail, Power Ranking - Return on Change Report. In the Kantar Retail survey the theme of over-complicating current and existing processes surfaced many times, which caused them to write in their findings:

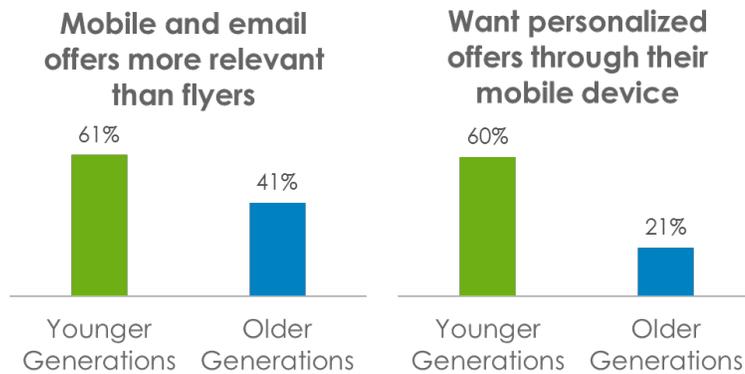
***“Go selectively (about innovating) to ensure employees stay focused while preparing them for the future. Because of the amount of change that is occurring, it could be easy to get sidetracked.”<sup>3</sup>***

If we look at it from a shopper perspective, trade promotions (especially mailed paper flyers) are still important to shoppers, but shoppers are starting to rate some forms of shopper promotions as highly desirable. As we can see from the below chart based on primary market research with shoppers, mailed paper flyers were still ranked as most important with 38% of shoppers saying they were important to them. But the second, third, and fourth most highly ranked were all shopper promotions.



Source: Precima Promotion Survey 2016

When you break apart the above numbers by generation, there is a clear difference by shopper segment. When asked if they felt that mobile or email offers were more relevant than flyers, only about 40% of older generations agreed, while over 60% of shoppers from younger generations (Gen X, Millennials, and Gen Z) did. In addition, only about 20% of the older generations wanted personalized offers through their mobile device, while 60% of the younger generation shoppers preferred this method.



Source: Precima Promotion Survey 2016

All of this is strong evidence for the need to do something different from the traditional trade promotion. But what? We now discuss the concept of personalized offers as an emerging promotional option that can address many of the shortcomings of the traditional trade promotion.

## What Are Personalized Offers?

We like to think of personalized offers as the evolution of the trade promotion that has been steadily trying to be more surgical in its ability to move from promoting at the banner level to the store cluster to the individual store, and now to the individual person level. However, this isn't possible through traditional vehicles such as store circulars, price promotions, or display programs. Instead, a personalized offer relies on an expanded set of media; including direct mail, email, text, web, social, and mobile technologies.

Because they are multidimensional across the web, email, paper, and mobile devices, personalized offers have an expanded ability to reach a unique person at a particular moment in time. This is simply because an email address or mobile device corresponds to an individual person, unlike a blanket offer in an ad circular or at the shelf that is made to everybody who walks by.

*... personalized offers have an expanded ability to reach a unique person at a particular moment in time.*

Additionally, because personalized offers by definition are targeting an individual through use of a unique identifier, they are fully able to marry up shopper strategies with product loyalty dynamics across in-store and on-line channels. This means a possibly different offer for a “switcher,” “loyalist,” or person who has never tried the product. The permutations and options are endless, but the key is that past purchase behavior can be used to trigger an offer and that offer can be extended dynamically by store, day of the week, daypart, or anything else. However, the retailer needs a mechanism— like a loyalty program or an App or an ecommerce site— to capture the necessary customer identifier, as well as permissions, to execute personalized offers on behalf of retailers and manufacturers.

Finally, personalized offers contain feedback loops over time to provide understanding both of offers that lead to purchases as well as those that do not. This allows for testing and refining of offers and segment strategies. It also provides for better understanding of ROI and other benefits that we will explore in the next section. Within the feedback loops is the ability to make an offer that could be a reward for past purchases, an incentive to purchase product that might not be purchased otherwise, or to do some other thing like provide some additional personal preferences or make an additional trip. The key lies in the attribution, or cause-and-effect relationships, that are developed and can be analyzed for future leverage.

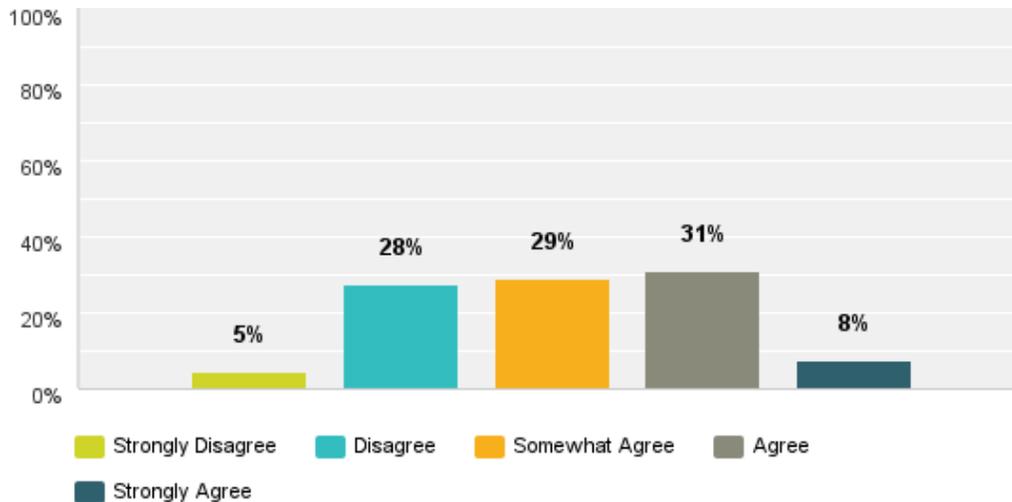
## Why Are Personalized Offers Both Better and the Wave of the Future?

A list of the reasons is most appropriate here because there are many. But what they all combine to offer is the concept of a unique offer to a unique person at a specific point in time. In particular, personalized offers are better because:

1. Shoppers are tired of having their data collected and then watching as nothing happens. Millennials in particular are accustomed to personalization. If they don't get meaningful offers then they feel they may as well purchase through Amazon or a similar channel. It is basically a matter of a "meaningful versus convenience" trade-off.
2. Financial evaluation of the promotion becomes much easier. The purchase history of a shopper is known and can be modeled. A personalized offer is made and accepted that constitutes an identifiable response at the individual shopper level, which can be categorized as an increase in shopper loyalty (via a Thank You offer) or an incremental purchase (either through new trial or greater consumption). The financial impact can then be derived which alleviates the guesswork associated with pyramiding of coupon offers and trying to understand what is truly incremental.
3. The feedback loop that personalization provides also lends itself to predictive modeling that can be utilized to look at outcomes. This is critical to facilitating a more collaborative relationship between manufacturers and retailers because both parties are invested in an outcome that they both believe in. This stands in stark contrast to running the same tired and ineffective promotions, but can only be done through predictive modeling.
4. There is less waste of resources. Because today's shoppers are very omnichannel, they rely less and less on paper circulars (which millennial shoppers dislike) and traditional means. Now you can push an offer to a person and move away from traditional ad vehicles that don't ever get placed at the retailer's door or end up blowing around the parking lot.
5. Manufacturers just cannot continue to spend 25% of their revenues on promotions that often do not work. And retailers cannot continue to waste these monies, especially with the continued expansion of price-based formats. Thus, for a given level of spend, it makes the most sense to begin experimenting with personalized offers that can chip away at the two-thirds of trade promotions that miss the mark.
6. Personalized offers provide a mechanism for moving away from the "race to the bottom" on everyday price. Instead of continually looking to compete on the basis of lowest price, retailers and manufacturers can focus their collaborative marketing efforts on driving the right shelf price for the brand equity of the product and leverage personal offers to provide discounted prices (or other meaningful offers) only to those shoppers who are truly loyal to the manufacturer brand or the retailer banner.
7. As disruptive players like Amazon cut into sales in the traditional "center store," retailers will become more reliant upon the funds they receive from manufacturers to bolster the bottom line. Ergo, both are motivated to change the game. Both manufacturers and retailers continue to be nervous about, if not adversely impacted by, Amazon. The POI survey data bears this out as follows:

*Shoppers are tired of having their data collected and then watching as nothing happens. Millennials in particular are accustomed to personalization.*

**Chart 5: Responses by manufacturers to the statement: (You have) “concerns about doing business with Amazon.”**



Source: POI Research. The 2016/2017 TPx and Retail Execution Survey.

Some don't realize it yet but they soon will. For a very clear example of how this will impact traditional retailers you only need to look at the Amazon web page that you receive as a shopper when you add an item to your online basket. Therein, you frequently see upsell or cross-sell offers that state that “customers like you also bought these other items” or “customers that bought this product also bought these other products.” The first is an example of “like-customer” analyses and the second an example of “product affinity” analyses. Traditional retailers will need to become as adept as Amazon at these types of offers and this will favor the early adopter of personalized offers that can combine a relevant offer with a benefit that Amazon or another e-tailer cannot provide. Some of our favorites include:

- Local projects like taking a portion of revenues to fund something charitable like a foodbank, homeless shelter, or the scoreboard at the local youth sports venue.
- Fun things such as an in-store cooking class.
- Meeting a celebrity or sports figure at the store.

The key is to keep in mind that while e-tailers offer primarily cost and service (which are important, of course) they don't tap into the sense of community and fun that brick and mortar can offer. There is always a segment of the population that will shop at a store because by so doing they are helping the community or experiencing something interesting on a personal level. This is over and above just responding to something like a “cents-off” promotion.

## So What Should I Do?

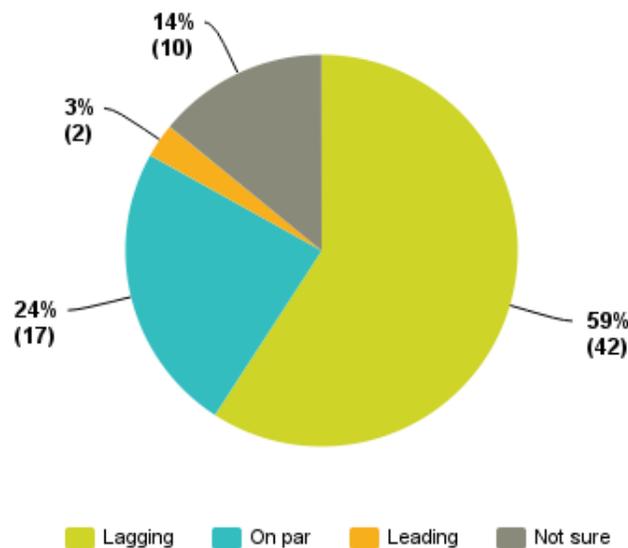
One potentially daunting aspect of moving to personalized offers is merely understanding how to get started. Here we offer various steps, some in order and some that can be done concurrently, that will help you to move forward and get a first mover advantage in improving your promotions.

*Prepare for some experimentation with personalized promotions. This is key to begin building a fact base to support a solid business case for shifting investment in personalized offers.*

1. To the extent possible, take a closer look at your current mass promotion efforts to identify which ones are not working from your perspective with the goal of quantifying the financial impact of these non-performing trade promotions. This includes the banners, categories, brands, tactics, and stores.
2. Identify trading partners that would include like-minded, forward-thinking entities who are actively looking to improve overall performance and ROI of promotional monies. It is important to choose partners wisely. Retailers should select products and associated manufacturers that will be most conducive to making personalized offers. Manufacturers should start prioritizing retailers that are progressive in this area. Factoring in the size of the financial opportunity is important, but should be a secondary consideration.
3. Create a joint task force with those like-minded business partners to share findings on promotions that are not working, identify the trade funds that are not being spent efficiently/effectively, and brainstorm new uses for these funds. Assuming that personalized offers is one of the options identified, move to item 4 below.
4. Prepare for some experimentation with personalized promotions. This is key to begin building a fact base to support a solid business case for shifting investment to personalized offers. Define what success means for all stakeholders — for CPGs, for retailers, and for shoppers— in terms of positive ROI, breakeven, engagement, redemption, and so forth. Consider the right products and trading area for a controlled test where some markets execute as they traditionally have and other “proxy” markets execute personalized offers. The comparison of results will speak for themselves; and because of the test and control methodology, the ROI can be extrapolated — but mostly it will be irrefutable.
5. Get comfortable with predictive modeling. This doesn’t mean going out and hiring a bunch of data scientists, but it does mean getting a basic understanding of how it works and what its limitations are. Start by “renting” some expertise and applying it against your shopper data to help you see where you can apply predictive modeling. From there a path will become pretty clear. Retailers are best positioned for a quick start here because they already have most if not all of the data they need. Manufacturers, on the other hand, will need to acquire the data from retailer partners or syndicated sources. Both manufacturers and retailers need to include trusted and bright minds who understand the data, analytics, and insights to provide oversight and drive organizational buy-in to the process and results. In some cases, these resources need to be hired if not available. This is one area where human capital is important, just like mass promo.

6. Don't fear "digital" as part of trade promotion. In this case we are using digital as a proxy for personalization because we see personalization as a subset of digital in terms of how it is delivered—even if the offer is a printed one but delivered through email. They aren't the same but they are related. The 2016/2017 POI Survey shows that CG companies believe they are behind their competitors on "digital" even though there is no definition or benchmarking for this. We understand that change is not easy. The perception that everybody else is already out ahead of you is unfounded. The POI Survey data bears this out as follows:

**Chart 6: Responses by manufacturers to the question: "Based on your definition of digital marketing and how you perceive the market, how would you rate your capabilities at the intersection of digital and trade promotion?"**



Source: POI Research. The 2016/2017 TPx and Retail Execution Survey.

The vast majority, totaling 73%, believe that they are lagging or unsure of where they are relative to the 3% that believe they are leading in this regard. We believe this is due to pure misperception and the lack of any meaningful definition or self-assessment tools for this space. But what we want you to take away from this is that you are not alone in believing that you have perhaps fallen behind. Even if you are uncertain or on-par, you can begin to take steps towards digital promotion. Personalized offers can be very powerful and, no matter where you are, you can move to the next level with some help because this is not an industry where the majority of players make huge, miraculous strides forward instantaneously. Instead, it is one where steady, thoughtful progress takes place over time.

7. An important point to note is that manufacturers should approach these efforts with the mindset of improving the effectiveness and efficiency of promotional monies and not with the express intent to reduce total spend at retailers while implementing personalized offers— we don't believe retailers will accept this. It has to be viewed as another tactic in the arsenal — at the same level of spending. The ROI will come from the effectiveness, not from an immediate reduction in trade spend.

8. Take a phased approach. The first phase will be testing the concept and building the business case. Next will be a controlled roll out. Not all retailers or manufacturers can or will be able to participate in the first couple of years because of changes they will need to make in how they incent their people, share data, or due to their culture overall. But retailers and manufacturers will need to segment their trading partners based on their willingness, desirability, and ability to move to this type of promotion.
9. Get a technology/services partner that understands how to do personalized offers as this is not a capability you can realistically ramp up organically. Whether you are a retailer or manufacturer, that is where your core competency lies. It is best to get a partner who has experience and can bring these capabilities to bear in less time and at lower cost than you can on your own. Ideally, the partner should be able to serve the needs of both parties as an honest broker of data, insights, recommendations, and results.
10. Keep in mind some of the subtler points of personalization. It is more important to design a program that is meaningful, relevant, and easily used by shoppers. Later on you can work on making it easier to execute from the retailer and manufacturer perspectives. Scale is indeed important, but in the initial phase it is more critical to show that personalized offers deliver more ROI than mass promo. Also, keep in mind that experimentation, or “test and learn” will involve real shoppers, so be sure to initially make the offers to the equivalent of “friends and family” to ensure that they are working and thus reduce risk.
11. Don’t get too caught up in the complexities— at least not initially. There will be a need to get into the details of shopper databases, privacy considerations, creating a pool of offers, and a measurement team to feed results and insights back into the process as part of the feedback loops mentioned previously. All of that will come with time. Changing the paradigm takes time. The current model of old, tired promotions didn’t get that way over night. You can make progress rather quickly by focusing on the items above, just stay focused on the right things at the right time.

*Now is the time for retailers and manufacturers to start taking steps towards personalized offers. The competition is already moving forward and they are not about to reverse course.*

### **Call to Action**

Now is the time for retailers and manufacturers to start taking steps towards personalized offers. The competition is already moving forward and they are not about to reverse course. Shoppers’ expectations for personalization are only going to increase. Trade promotion performance is largely not improving. The retailers and manufacturers that will win are those that are bold enough to start the journey in a meaningful way, are willing to start the soonest, and are most open to learning rapidly.

### **About the Author**

Dale Hagemeyer leads the research, best practices, and advisory function at the Promotion Optimization Institute (POI) and has been active on the POI Board since its inception. Previously, he was a research vice president and managing vice president at Gartner for 15 years. There, he did research in the application of technology to the business processes of trade promotion and field sales automation for consumer goods manufacturers. Prior to Gartner he spent 14 years in management positions related to the promotion and distribution of products at Sunbeam Corporation, The Quaker Oats Company, PepsiCo, Kraft Foods, and Kroger. He also fulfilled an international assignment in Mexico from 1995 to 1996. He has served on various industry advisory boards for trade associations and industry periodicals. He holds an undergraduate degree in finance from the University of Utah and an MBA from the University of Chicago.

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### **About Precima**

Precima provides manufacturers and retailers with customer-centric merchandising and marketing solutions enabled by advanced analytics and shopper insights. Precima enables its clients to deliver on the promise of shopper-centricity through the development and execution of customer-driven strategies and plans that are integrated across marketing and merchandising (pricing, promotion, and assortment). Key to being able to do this is being able to transform data into deep customer insights that put shoppers at the center of every decision to build shopper loyalty and help grow the business. Precima's capabilities allow its clients to:

- Analyze all shoppers individually, rather than simply segmenting the top tiers.
- Develop a holistic understanding of shoppers' needs, their current and potential value, and what they respond to.
- Ensure timely, relevant, and profitable communications through the shopper's channel of preference.
- Enhance collaboration with trading partners by providing a one-source-of-the-truth SaaS-based Data and Analytics collaboration solution.

Precima's clients typically realize the following benefits from personalization:

- Response rates of over 40%
- Incremental sales of 2-4%
- ROIs from 40%-150%

Precima's head office is located in Toronto, Canada, with global offices in Den Bosch, The Netherlands, Chicago, USA, and London, UK.

**For more information:**

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