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PROMOTION OPTIMIZATION INSTITUTE

POI FOCAL POINT. THE SECOND IN A SIX PART SERIES:

Trade Promotion Management, Effectiveness, and Optimization (TPx) plus revenue management investment priorities for 2018

What are others doing? What should you be doing?

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Introduction

Here we present our survey and current conversation-based list of investment priorities as you begin planning for 2018. This is not to say that this list is what you should be focused on. Only you can be the judge of that, but this is what we are seeing in the industry. The key is, as we presented in the previous Focal Point, to not get left behind; similarly, to not focus on things that will not give you relative competitive advantage.

We present our list in bullet format for what other companies are focusing on, what the industry should be doing, and what it should be de-emphasizing. In all, we see this focus as mission critical because our 2017 POI survey data shows that satisfaction with the ability to manage trade promotions has declined by 5 percentage points from last year and now stands at 14%.

Part 1. Current TPx and revenue management investment priorities (not in any priority order):

- **Multiple TPx solutions across countries and regions.** Our 2017 POI Survey has shown that 58% of respondents have a single TPx solution. Another 19% have two solutions, 8% have 3 and 11% have more than 4. Thus, 38% have multiple solutions. When we factor out the companies that only do business in a single country, the number jumps to 88% that have multiple solutions. This is consistent with what we have observed globally: that differences in business practices (like modern versus traditional trade) and relative cost of an implementation (in a small versus large country) have necessitated having multiple TPM solutions based on what best fits the local environment. The other reason we find to be valid is where, as a result of mergers and acquisitions, it may be cost prohibitive to move the acquired entity onto the existing TPM solutions for a period of time, or indefinitely.
- **Integrating TPx solutions to Retail Execution.** This has seen a 6 percentage point improvement from last year. The value lies in being able streamline the movement of promotional plans to those who will execute them. This includes making changes to promotional plans as well as merely pushing them out to the field. Still, *86%* of survey respondents say that they have not yet achieved this integration.
- **Moving to Trade Promotion Optimization (TPO).** The key word here is “moving” because it truly is a journey. There was a time in 2013-2014 that we actually saw movement away from TPO due to complexity and inability to acquire timely, accurate data. This has since reversed and we are seeing modest improvements in TPO projects. Since it is a journey, it is time to get started. Our survey data shows that only 17% of respondents have predictive models in the hands of field users for optimizing promotions where they actually get planned, so there are lots of opportunities.
- **Post event analytics.** This has seen a 6 percentage point improvement over the last year as companies have deployed additional capabilities or upgraded their overall TPx solutions. Nevertheless, 60% of respondents have not automated the post event analytics process and even more are not able to evaluate promotions as deeply and as frequently as they would like. If you are one of those CG companies that is only able to analyze the top 3 promotions at your top 5 customers then you should give some thought to this investment option in 2018.

Our 2017 POI survey data shows that satisfaction with the ability to manage trade promotions has declined by 5 percentage points from last year and now stands at 14%.

- **Causal data management.** Our survey data shows that data quality is still an issue. Only 84% of respondents say that they have data quality issues. There are various service options available to help with the acquisition, cleansing, harmonization, and integration of data to better help you manage your promotions. One option we previously identified for so doing can be found here: poinstitute.com/wp-content/uploads/2017/02/RetailVelocityPOIWhitepostgraphics.pdf. The upshot is that causal data is absolutely critical to the promotion cycle — from monitoring to evaluation to optimization of promotions.
- **Getting best practices.** We often find that technology is deployed on top of sub-optimal processes. This is because the CG companies don't realize that there is a better way to do things. They often fail to ask their solution/service provider to provide best practices. However, after POI has written and presented on this topic for several years, we are now seeing a significant reversal in this trend. Specifically, our survey data shows a whopping 16 percentage point improvement in respondents saying that they received best practices from during deployment. But you have to make sure during the software/services selection process that your prospective partner is actually capable of delivering those best practices. This means interviewing the entire bench of consultants who will work on your project. It also means you have to be willing to ask for ideas, based on their experience, of how to do things better.

In summary, we have seen positive movement in all of these areas and that they are solid indicators of where other CG companies are investing today. With that said, we now turn our focus to investment options for the next year (and perhaps beyond) planning horizon. This is not to say that those capabilities in Part 1 are superfluous. To the contrary, if you have not obtained them and see the lack thereof as a significant pain point then you should continue to focus on them. We specifically called out the percentage of companies that don't have them; and, in most cases the percentage is very high. Thus, they are worthy of a look and an evaluation through a business case as to whether this is where your next TPx/revenue management dollar should go.

Nevertheless, for those asking about other investment opportunities that are perhaps a bit further out, the next section is dedicated to some thoughts on 2018 investment options.

Part 2. What you should be looking at (and where other companies aren't).

Right away you are probably thinking there are some really "edgy" capabilities on this list. Sorry to disappoint you. The reality is that there isn't that much that is really edgy. Mostly it is things that continue to be relatively broken, but that if fixed could drive competitive advantage and growth. Here is our list based as always on our survey data, interviews, and what we are seeing in the marketplace:

- **Change management.** This may seem very basic but consider that 92% of survey respondents say that have change management issues with TPx (unchanged from YAG), and of those, 60% say this is always the case. And it is not just for initial deployments. 91% of respondents say that they have issues when onboarding new employees (3 percentage points worse than YAG). This means that TPx systems and process are challenging from a change management perspective. It takes some work to shift the culture and to get people to adapt. Sometimes it is just a matter of getting people to trust in systems. In our survey we found that 78% of respondents say that their users don't trust numbers that they see in a TPx system. All of this points to a need for change management. There are many things you can do — from having a change management program in your solution deployment to deploying on-line tools and distance learning to support users. In this document we outline the best practices for change management: poinstitute.com/wp-content/uploads/2016/01/POI-Best-Practices-Change-Management-for-Sales-Organizations.pdf. The net of it is that the survey data shows that change management is a big issues and it has gotten worse from a year ago. Therefore, this is a worthy investment for 2018 because virtually nobody else is investing here.

- **Focusing on TPx user needs.** Once again our survey data points to an issue. 93% of CPG Manufacturer respondents said that the entire TPx process takes a burdensome amount of time. This is quite sobering in the age of smart phones that people work/play with them continually and seem to actually enjoy it. Perhaps it is due to lack of best practices or ergonomics, but there are some clunky solutions out there that were purchased previously. There are also some that are highly complex. Consider these recommendations related to having a UX that better meets expectations:
    - Get users involved in tool selection as well as configuration decisions. It shouldn't be left to IT alone, or office-based support people to make these choices and hope the users will like it.
    - Don't separate UX from data visualization that is part of analytics or dashboards. It is all part and parcel of the same experience. Ugly is ugly, whether it is a screen layout or how a chart actually renders on the screen.
    - Don't forget that being ergonomic and making it easy to do input or get information from the system is also part of the UX.
    - Don't forget about features that improve UX such as:
        - Single sign-on.
        - Ability to personalize at the individual user level.
        - System administration tools to aid in continuously improving the UX without involving the vendor or IT.
        - Tile based architecture.
        - Big buttons to facilitate data entry on mobile devices.
        - Navigational aids such as corridor search for finding adjacent and logical stores to visit.
    - Upgrade your TPx to the newer version instead of waiting. There may be some business interruption, but if users hate it then it is probably worth it.
    - Retire an old legacy solution that falls under the heading of "clunky"; just do it. Think about the users and their productivity. They can spend more time selling and selling profitable cases instead of mucking through a tedious TPx system.

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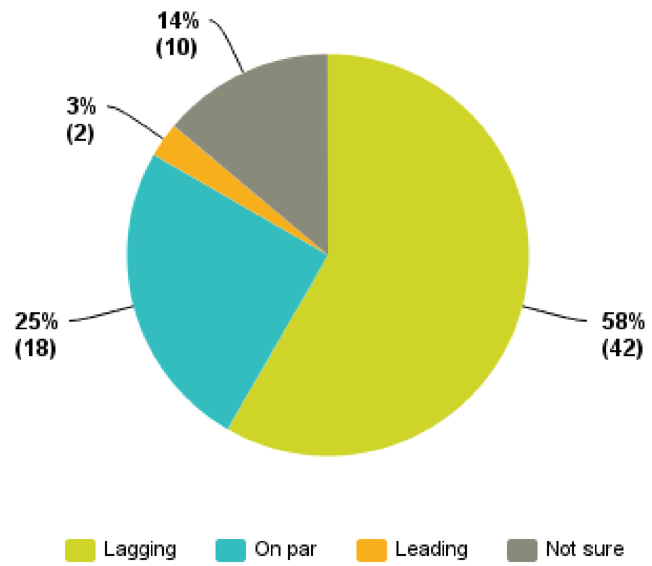
This area is worthy of consideration for 2018 because the survey data showed no change from YAG from the 93% that are having this issue. It is always good to look at an area that is a big issue and yet very few competitors are pursuing.

- **Evaluate the use of spreadsheets.** The idea behind a survey-based TPx solution is to increase speed, accuracy and transparency. Our previous POI Focal Point touched on this in detail. Here is the link: poinstitute.com/wp-content/uploads/2017/08/POIFocalPointTPMTimetoGetintheHunt.pdf. In case you want the sort version, we made a strong case for getting off of spreadsheets and onto a server-based technology. Nevertheless, our 2017 survey showed that 88% of respondents augment their TPx solution with spreadsheets. This doesn't mean those that use spreadsheets for TPx, it means that those 88% have a solution but choose to build spreadsheets in addition to their TPx solution. It could be that working with the TPx solution is just too burdensome, as we have already addressed. However, it may also be that field as well as management users are not utilizing functionality that exists, but choosing to operate in spreadsheets. We recommend that you look into the "why" behind those spreadsheets. You may just need to do some training or change management. If that isn't the case, then you should serve up the need to your solution vendor as an enhancement. Lobby with other like-minded companies that you meet at user conferences, or at POI Summits. Get the enhancement put on the development roadmap. However, don't continue using Excel as a silo tool that has so many accuracy, transparency, latency, and accessibility issues associated with it.
- **Digital promotion.** This one is a real paradox. A chart from our research will explain why.

Chart 1. Responses 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 2017 TPx and Retail Execution Survey

Perhaps it is somewhat natural to believe that your company is lagging with respect to emerging technologies, just as it is normal to believe that you are leading when it comes to those that are more mature. It is not our intent to establish a definition for digital promotion in this report. However, regardless of the definition that survey respondents had in mind, we know that the responses are far from a "normal curve" distribution. There just can't be that many "lagging/not sure" and so few leaders because we asked for their perceptions relative to the market. We definitely believe you need to get started on digital promotion.

Thus we offer the following recommendations for the area of digital promotion:

1. **Don't be so hard on yourself!** The competition isn't eating your lunch like you think. However, do not be complacent.
2. **Have a plan for digital promotion.** Don't just seek to acquire some capabilities, but have an overall plan. The number of respondents to a related question that said they need a tool or service in order to move forward with digital promotion may be an indicator that they are struggling to put a plan together.
3. **Get some external help.** We believe there is so little linkage between traditional trade promotion and digital promotion because the people doing both types of promotions have full time jobs doing their respective type of promoting. They need help to see how it fits together and what the best practices are.
4. **Create a "test and learn" environment** so you can experiment and gather the pieces for a business case that will allow you to expand over time instead of having an orphan project.

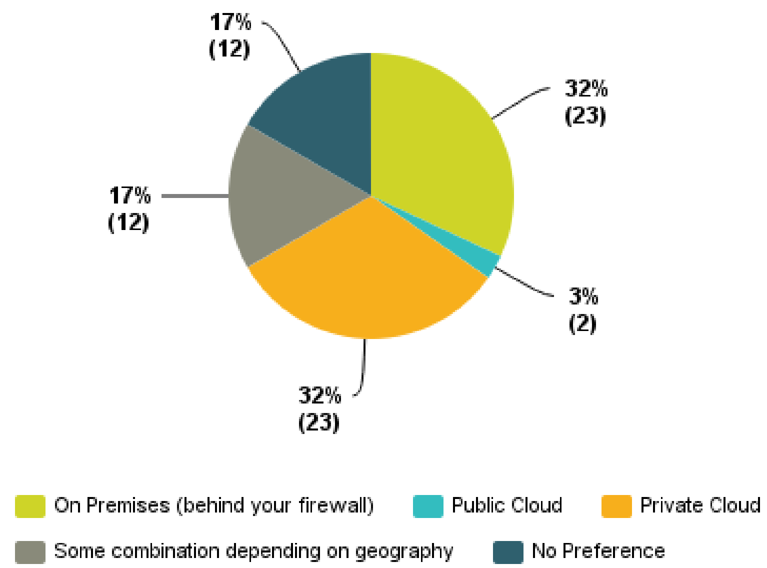
- **Cross channel visibility.** We hear that it is a big issue and we did an informal poll at a POI event in late 2016. The upshot is that only about 5% of CG companies have any linkage between digital and traditional trade promotions. There are multiple ways to approach this opportunity, but the upshot is that both channels need to be cohesive and not work in isolation as it is neither efficient nor productive. Get some help. We engage with many CPG and Retail executives on these things and share best practices at POI events. Come and be part of the dialog, and achieve results. But if you are going to pursue digital, as we recommend in the previous bullet point, you should also simultaneously work to ensure that the two channels work together.
- **Analytics.** While this is a very broad category, we see lots of focus on transactional TPx and less on deriving insights. From our survey, 66% of respondents said that they definitely "have challenges moving user capabilities from being transactional to more analytical." Insight is the currency of collaboration. Ask your TPx users what sorts of insights they need and work from there. This is guaranteed to drive some lively discussions for 2018 TPx capability planning. But only 8% of respondents to this survey question say that they don't have issues moving to more analytical capabilities so there is definitely competitive advantage to the degree that you can do so.

Have a plan for digital promotion. *Don't just seek to acquire some capabilities, but have an overall plan.*

Part 3. Where we don't believe you should be prioritizing your investment for 2018.

Technology delivery without adequate functionality. We hear a lot of talk about the cloud. It has gotten to be quite mainstream. We even see it on prime-time television these days. While we have no doubt that the cloud is the future of technology delivery, we still find that some cloud TPx solutions are heavy on cloud delivery but light on functionality. Vendors may want to paint a picture of how everybody is moving to the cloud, but the survey data doesn't support this. Here is what we found:

Chart 2. Answers to the question: "What is your preferred means of providing TPx technology?"



Source: POI Research: The 2017 TPx and Retail Execution Survey

Clearly, on-premises is still big for TPx. It is tied with private cloud at 32%. "No Preference" and "Some Combination…" combine for 34%. This further underscores what we found in the 2015/2016 POI survey: that 52% of respondents ascribe importance to "…a vendor's ability/ willingness to do customization (write code) that would make your solution very tailored but turn it into a unique instance that would be out of the upgrade path." The fact that customization is still desired and that on-premises is still the preferred delivery method for TPx indicate that there is more hype about the cloud than is perhaps warranted. The cloud has a place in an overall TPx strategy, but is still not dominant. Again, we are not anti-cloud. We simply want you to understand that only 35% of your peers have a preference for some form of cloud, whether public of private. And, that doesn't mean they are buying it now, just that it is their preferred delivery method. Their response could be very future looking. Nobody is rushing to buy cloud. If you have decided to upgrade your existing solution then by all means look at cloud as a delivery option, but make sure that it meets your functionality requirements. Be wary of any co-development or development platform story. There are many advantages to cloud technology, but not as it relates mature capabilities that can help you in selling more profitable cases of product.

Summary

In summary, you need to align your TPx capability investment priorities with your current pain points and a corresponding business case, but we wanted you to see a survey-based approach to what is getting traction in the market place as well as where we see the biggest opportunities.

POI has more details on trends in the TPx space as well as the many offerings that enable it. You can find these materials at poinstitute.com/about/poi-publications/ to access publications, etc.

About the Author

Dale Hagemeyer leads the research, best practices, and advisory function at 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 the Promotion Optimization Institute

POI brings together manufacturers, retailers, solution providers, analysts, academics, and other industry leaders with the specific objective of collaboratively improving the promotion and distribution of consumer goods. Members of POI share cross-functional best practices in both structured and informal settings. Additionally, members benefit through our industry alliances, the Certified Collaborative Marketer (CCM)™ program, and industry-leading summits around the globe. POI aims to instill a financial and metrics-based discipline not typically found with other trade groups. The goal of our innovative approach is collaborative promotion optimization. The focus is on the customer/shopper through sales, marketing, and merchandising strategies. Executive advisory boards keep us apprised of industry needs and help us provide desired outcomes for members, sponsors, and academia.

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