Collaborative Marketing Driven by Advanced Analytics Summit

Ensuring Your Successful TPM-TPO Retail Execution Journey





Maximizing Your Analytics Capabilities with an ROI Mindset





Agenda

- Introductions
- The opportunity and ROI Mindset
- Building your capabilities around the ROI Mindset
- Insights from the Strategy& Trade Benchmarking Study



With you today from Strategy&: Trey Alexander

Trey Alexander – Strategy& Partner, TPE Senior Lead

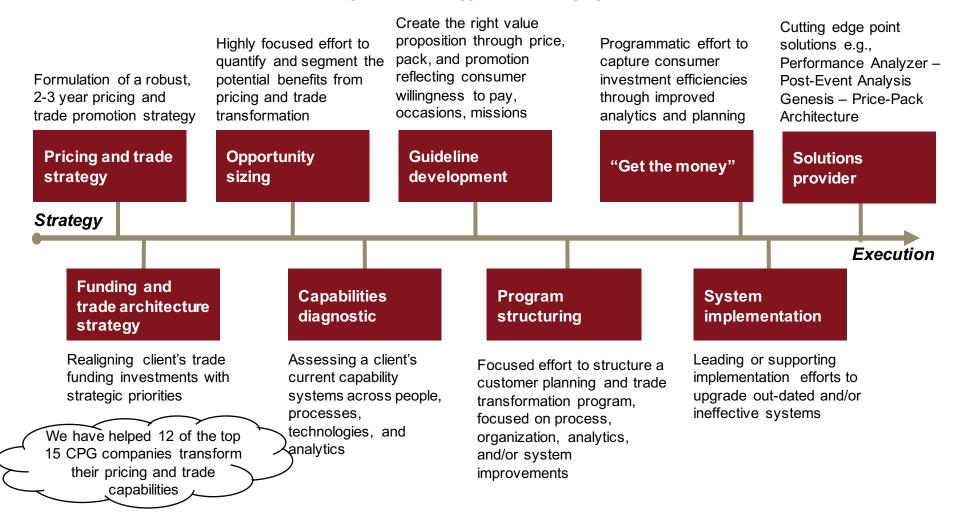


- Over 18 years of Strategy& consulting experience, primarily with CPG manufacturers
- Specializes in helping companies develop strategies and capabilities that improve trade promotion, marketing and sales efficiency
- Has led programs across beverage, food, consumer healthcare and consumer household goods industry segments
- Experienced with multiple commercial solutions for TPM, PEA and TPO



Strategy& supports all facets of our clients' Trade Promotion Excellence needs, from strategy through execution

Range of Strategy& TPE Engagements





The opportunity and ROI mindset

Building your capabilities around the ROI Mindset

Insights from the Strategy& Trade Benchmarking Study

There are three levers where improved analytics can influence trade effectiveness

Three Levers for Influencing Trade Effectiveness

Trade Promotion Management

- Create transparency into trade spending
- Ensure financial control over trade spending
- Enable accurate sales forecasting and demand planning

Trade Promotion
Optimization

- Optimize how trade funds are spent by ...
 - understanding the relative effectiveness of investment options
 - enabling a better, more fact-based dialogue with customers

Trade Funding

- Deploy funds to the most productive investments areas -- across customers, products and uses
- Motivate retailers' behaviors

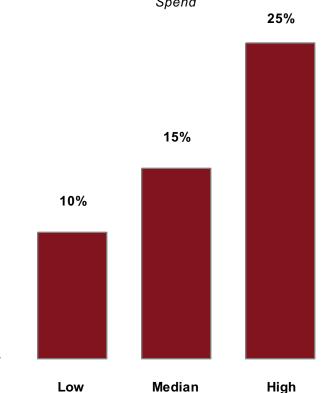


In our experience, CPG companies can often realize a 10 – 25% profit improvement on trade spend with enhanced capabilities

Driving Value from Enhancing Trade Capabilities

Typical Trade Spending Opportunity

Profit Improvement Based on Addressable Spend



Key Value Drivers

	Driver	Enabling Capabilities			
		Funding	Planning	Optimiza tion	Systems
Efficiency	Eliminate inefficient funding	✓	\checkmark	\checkmark	
	Reduce trade spending administrative costs	✓			✓
	Understanding cannibalization across channels and products		✓	✓	
	Eliminate unprofitable promotions		\checkmark	√	
Effectiveness	Target promotions at categories, channels, regions			✓	✓
	Better target promotions at the account level		✓	✓	✓
	Invest with winning retailers & products	✓	√		
	Identify effective, never tried-before, promotions		√		
	Estimated Trade ROI Improvement Opportunity	~ 5%	~ 5%	~ 5 - 10%	~ 5%



Capturing the benefit requires applying an "ROI mindset" to each part of a closed-loop trade capability

oresplanning

Postellen

Developing the ROI Mindset

ROI Mindset

Execution

Pre-planning

- · Define strategies and goals
- Leverage PEA to identify events to add, change, and/or eliminate
- Leverage tools such as TPO to model anticipated results from previously untested ideas and event scenarios
- Create library of unconstrained events and base driving activity ideas
- Key Systems: PEA, TPO

Post-Event Analysis

- Review of event history to identify what worked, what did not, and develop improvement hypotheses
- Critical input for planning that leverages recognizable data and results
- Fact base that serves as foundation for driving improved ROI
- · Key Systems: PEA

Planning

- Develop overall plan for both base and promoted business given budget and targets
- Analyze and assess different plan scenarios and impact on both manufacturer and retailer perspective
- Key Systems: TPM, Planning and Scenario analysis tools, PEA, TPO

Execution

- Monitor and evaluate execution vs. plan
- Manage the settlement process and update real-time checkbook
- Update plans accordingly based on actual results and updated funding
- Systems: TPM, PEA, SFA



The opportunity and ROI Mindset

Building your capabilities around the ROI Mindset

Insights from the Strategy& Trade Benchmarking Study

Trade capabilities span a continuum – beyond the foundation, each company should decide what and when to develop next

Continuum of TPE Capabilities

Foundational Capabilities

Strong foundational capabilities optimize data collection and execution

Advanced Capabilities

PEA and TPO can maximize return on promotions and optimize customer planning

Aspirational Capabilities

Drivers better alignment with internal and retailer priorities

Trade Promotion Management (TPM)

Customer

Analysis

Trade **Promotion Optimization** (TPO)

Demand Planning Integration

Integrated / **Joint Business Planning**

Payments Promotion entry

Trade

- Support for all payment / settlement methods
- Real-time checkbook management and analysis
- Trade funding and budget allocation
- Well-defined approval and spending control processes

Full-volume plan management with base / incremental volume tracking

Planning

- Support for monthly forecast submission by brand / pack size
- Tracking metrics including profit measures
- Plan / actual progress against performance targets

Defined process for performing post-event analysis to measure eventlevel performance

Post-Event

(PEA)

- Reporting tool that matches syndicated consumption / POS data with promotion plans and trade events (i.e., facilitates ROI calculations)
- "What-if" scenario planning with event libraries
- Analytical models for predicting promotion performance
- Customized new item, special pack, and club pack forecasting processes
- Trade promotion plans automatically linked, communicated, and incorporated into demand planning algorithms
- Integrated planning and execution across all relevant functions (e.g., single agreed upon forecast)
- Online, interactive plans joint planning with retailers)



Traditional TPM transformations typically focus on a combination of priorities

What TPM Should Deliver

Key Benefits

Capabilities to Enable

Transparency into Trade Spending

Control over
Trade Spending

Accurate Sales Forecasts

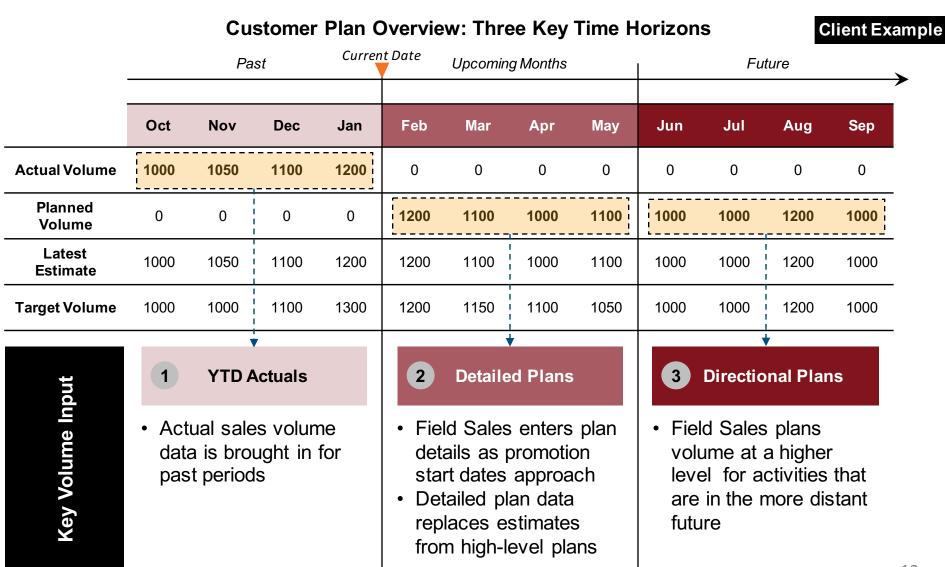
Minimal Administration

- Sales teams and analysts can clearly understand and report on investment
- Business units can confirm trade dollars are being spent as planned
- Business units can enforce restrictions on trade dollars
- Central management of approvals
- Reliable, consistent bottom-up forecasts for plan reconciliation
- Improved visibility for mid-year decision making
- Simple process and basic approval automation minimize time commitment
- Good metric design enables dynamic reporting capabilities

- Promotion and fund-level spend tracking linked to promotion execution
- Real-time payment tracking and checkbook balance
- Automated financial controls with audit trails and reporting on violations
- Fund access and transaction control correlated with business priorities
- Total volume planning in its base and incremental components
- Comprehensive metric design, planning and actualization process
- Reliable controls
- Automated workflow
- Comprehensive reporting



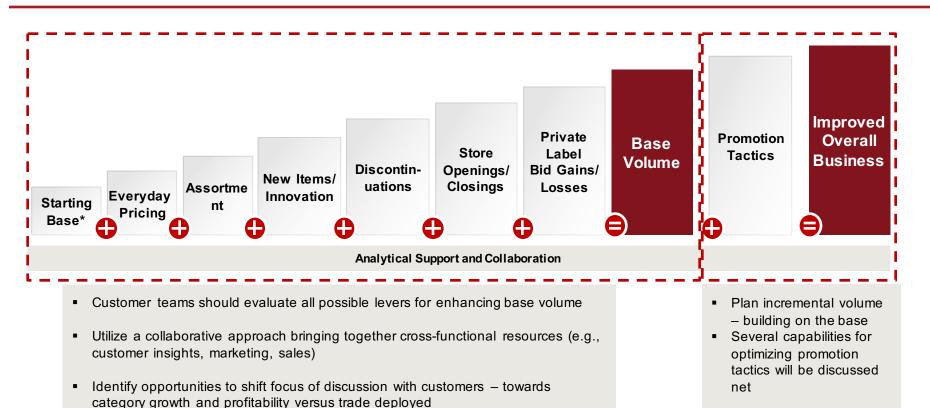
Ideally, the capability will facilitate managing the plan over three distinct time periods across key metrics





For the base business, more and more companies are considering both a reference starting point and additional 'base driving' levers

Client Example: Sales Planning Levers





Optimization capabilities focus on maximizing outcomes while working within budget, price and retailer margin constraints

Common Metrics Leveraged in Promotion Optimization

1 Volume Metrics

- Base Shipments
- Total Shipments
- Base Consumption
- Incremental Consumption
- EDLP Incremental

Spending Metrics

- Variable Spend
- Fixed Spend
- SMG Spend
- Total Spend

Profit Metrics

- Net Revenue
- Incremental Contribution
- Contribution Change
- Average VCM

4 Merchandising Metrics

- Promoted Weeks
- Discount %
- Base Price
- EDLP Price
- Promoted Price
- % Feature
- % Display
- % Feature and Display
- % ACV Non-promoted

5 Efficiency Metrics

- ROI
- Cost per Incremental Case
- Cost per Shipped Case
- Shipment to Consumption Variance

6 Retailer Metrics

- Retailer revenue
- Retailer profit
- Retailer everyday margin

7 External Metrics

- Competitive product set
- Competitor price points
- Competitor consumption volumes



performance at any level

Improved decision making

deploy trade funds

regarding where and how to

Key input to sales planning, competitive analysis, and category management

Optimization capabilities range in sophistication from manual/automated PEA to fully Automated Optimization

Leverages profit-based

prioritize and select

events

metrics or other targets to

Trade Promotion Optimization Capabilities

Increasing Levels of Facilitation Consistency of event Automated Plan Creation performance given set of causals inspires confidence System creates optimal PEA event library is used to in underlying models plan scenarios given a set test accuracy of what-If **Automated Event** of provided constraints prediction capabilities and targets **Optimization** Provides visual representation of **Facilitated Event** optimization results **Optimization** through various charts Advanced analytics used such as merchandising to estimate promotion **Post Event Analysis** effectiveness profile, price results and sensitivity profile, cannibalization given a set Insight into key drivers of sensitivity analysis (e.g., of causals performance and ROI vs. volume), and accountability for execution Lift Tables automated event scenario Predictive Models creation • Visibility to event level results across the Allows the development of System identifies optimal organization with flexibility promotions based on "what-if" event and plan to roll-up and assess scenarios user-selected optimization

metrics and constraints

Post Event Analysis solutions are evolving in ways that balance automation with selective analyst intervention

Evolution of Post Event Analysis as a Capability

High

Quality of Data and Insights

Manual, Excel-Based **PEA**

- + Flexible, high-touch approach to ensure data and analyses are highly accurate
- Significant effort spent integrating and cleaning data
- Manual efforts usually unsustainable and not efficiently scalable
- Results can be inconsistent especially if done ad hoc

By-Product of TPM

- + Shipment and/or Consumption assigned to plan-based spend
- Requires input data (esp. planned promotion) to be 100% accurate
- Often covers merch events only – ignoring 50% or more of spend

Basic Automation

- Rules-based assignment of spend to consumption-based events
- + Supports broad-scandata analytics
- Lacks practical approach to identify and correct erroneous source data
- Cannot distinguish between clean and questionable PEA results
- Often has overly simplistic approach to layered events

Best of Breed

- + Automates matching and cleaning of 'good data'
- + Facilitates intervention with 'bad data'
- + Handles realities of multipleoverlapping consumer activation, EDLC, etc.
- + Operates in consumption and shipment-based environments
- + Incorporates competitor and category views into the analysis
- + Scalable and sustainable

No

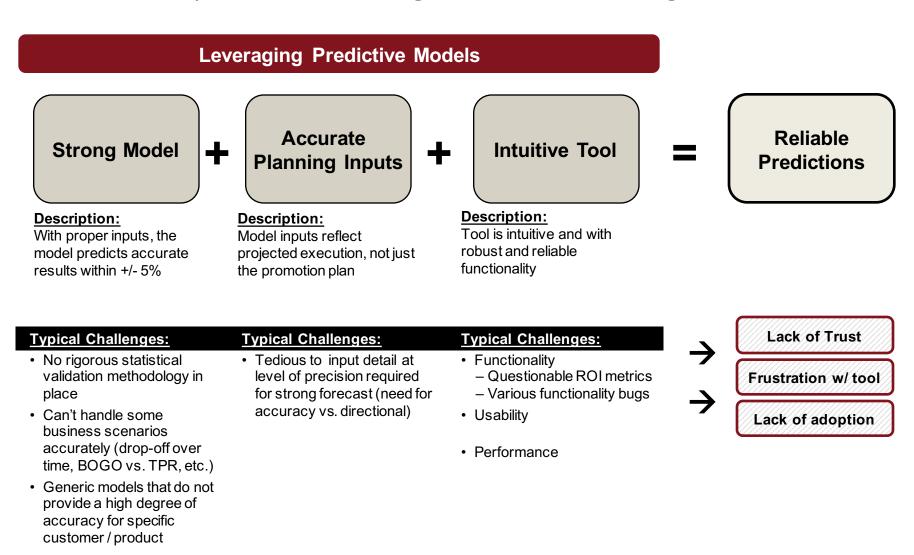
Low

Completeness of Solution

High



Successfully deploying predictive models to support trade optimization requires addressing common challenges





The opportunity and ROI mindset

Building your capabilities around the ROI Mindset

Insights from the Strategy& Trade Benchmarking Study



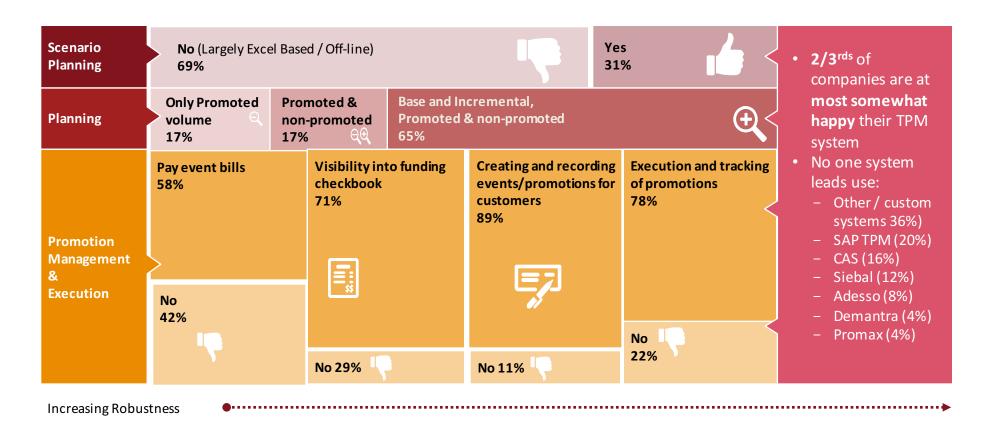
Our study examines trade practices across the CPG industry; we dedicate part to analytics processes and tools

- Our recent update to the bi-annual Strategy& customer planning and trade spend management benchmarking study focused on a series of objectives, including:
 - Understand latest trends in how leading CPG companies structure and manage their customer investments
 - Provide quantitative and qualitative insights from the data gathered and through case studies
 - Allow participants to benchmark their performance against others within and across the CPG industry
- Senior executives from a wide set of companies (47 total) participated by completing a quantitative survey and qualitative interviews on multiple topics:
 - How to deal with increasingly complex channel environment (e.g., e-comm, dollar)?
 - How to create the right trade strategy to win in a low-growth economy?
 - How to work with varying objectives of brand marketing, field sales, and retailers?
 - How to best integrate with other critical processes (e.g., S&OP, forecasting)?
 - How to develop a holistic approach to customer investment (e.g., trade, A&CP, supply chain)?
 - How to action making promotions more effective (e.g., post event analytics)?



Overall, participants are doing much better with TPM, but scenario planning capabilities continue to be nascent

Analytics Foundation: Trade Promotion Management Systems (TPM) Level of Robustness



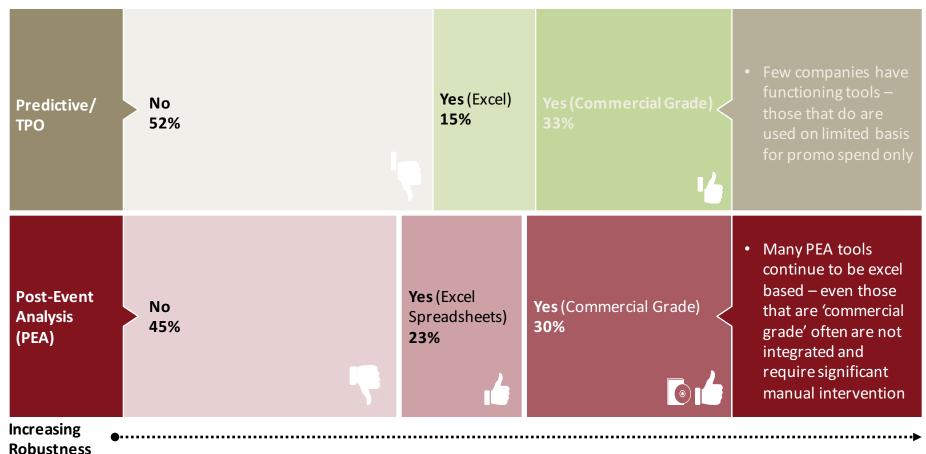
Question 4.10: If you have a system, which of the following capabilities does this system have? Strategy & Future of Retail, 2016 Strategy & Customer Planning and Trade Spend Management Benchmarking



Predictive and post event analytics systems are still not being leveraged to full capacity

Optimization Analytics: TPO and PEA Systems

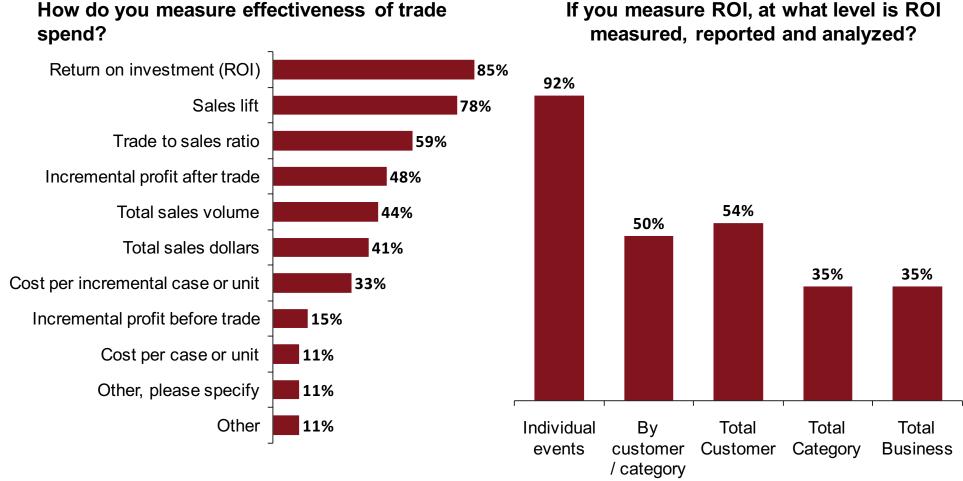
Level of Robustness



Question 4.13: Do you have a tool or system to leverage predictive analytics / trade promotion optimization capabilities? Question 4.12: Do you have a system or tool that supports or enables post-event analysis? Strategy & Future of Retail, 2016 Strategy & Customer Planning and Trade Spend Management Benchmarking



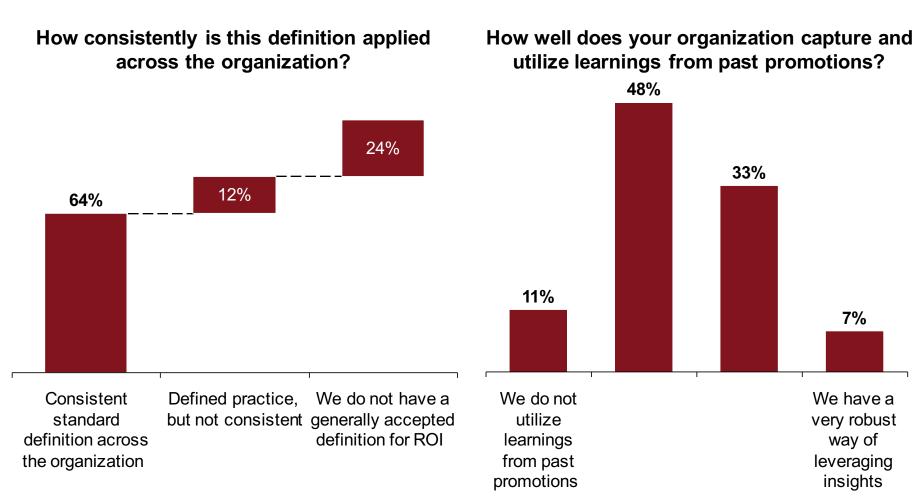
Companies leverage a range of metrics to analyze investments – event level ROI is becoming the standard



Question 6.1: How do you measure effectiveness of trade spend? Question 6.3: If you measure ROI, at what level is ROI measured, reported and analyzed? Strategy & Future of Retail, 2016 Strategy & Customer Planning and Trade Spend Management Benchmarking



However, many struggle to translate these measures to insights that impact future plans



Question 6.5: How consistently is this definition applied across the organization?

Question 6.8: How well does your organization capture and utilize learnings from past promotions?

Strategy & Future of Retail, 2015 Strategy & Customer Planning and Trade Spend Management Benchmarking



A holistic approach, coordinated across multiple enablers drives benefit capture

TPE Capability Transformations

Embedded "Strategic" processes

Joint business planning and Target-setting Co-Budgeting and planning Post-event analysis and tracking



Performance management

- Budget/funding structure
- · Pricing waterfall
- P&L/Profitability



The right transformation process

Set targets
Establish vision
Pilot early
Demonstrate success
Create champions
Build momentum

Analytical understanding & data

Volume response
Promotability
Customer perception and willingness
to pay
Scenario simulations and
financial forecasts
Market dynamics and profit pools

Aligned organization & incentives

- Roles/accountabilities
- Skills and training
- Incentives/metrics



(O)

Tools & systems

Planning and post-event tools Scenario simulation tool Data warehousing/architecture Systems interfaces