

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

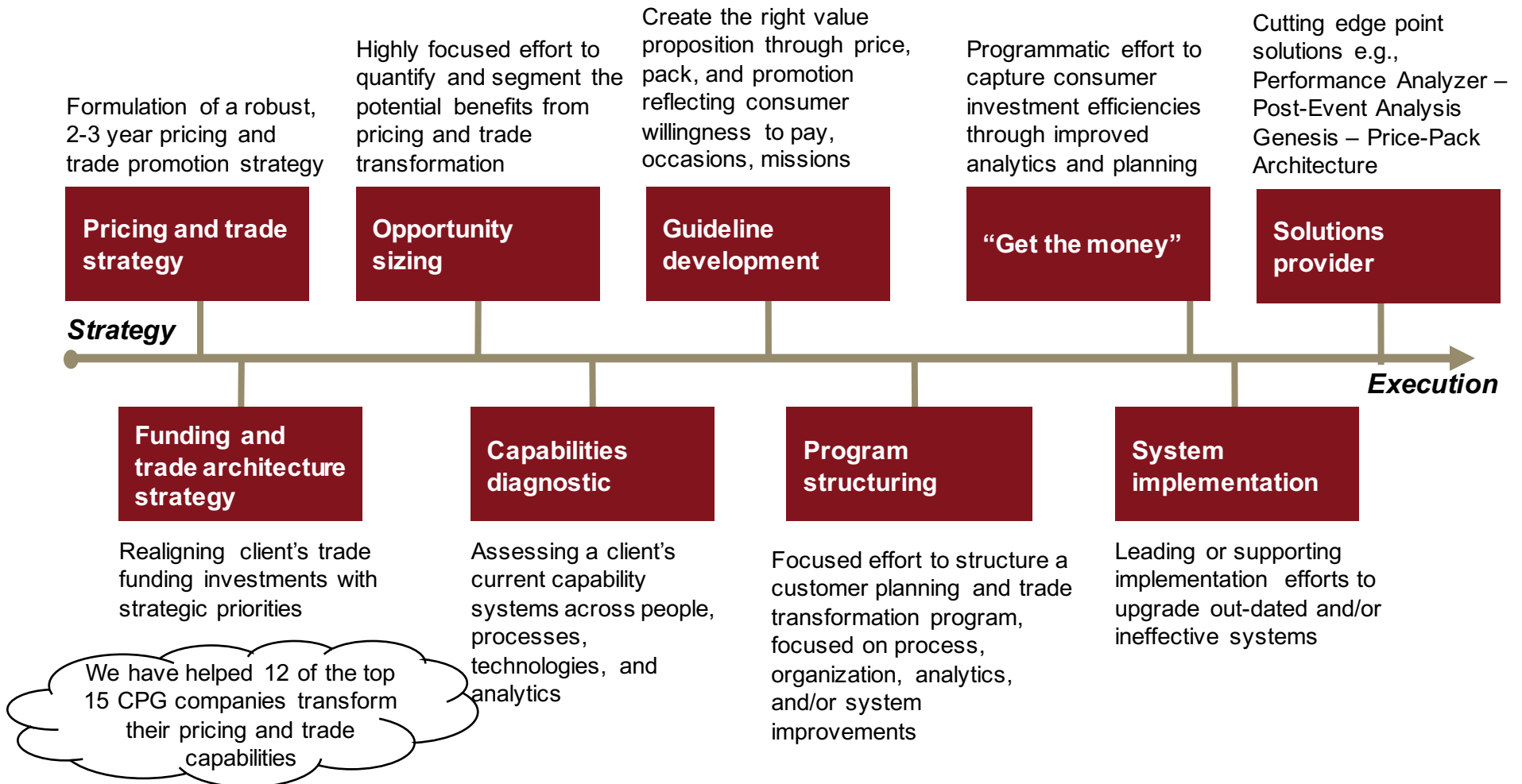


- Over 18 years of Strategy& consulting experience, primarily with CPG manufacturers
- Specializes in helping companies develop strategies and capabilities that improve trade promotion, marketing and sales efficiency
- Has led programs across beverage, food, consumer healthcare and consumer household 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



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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

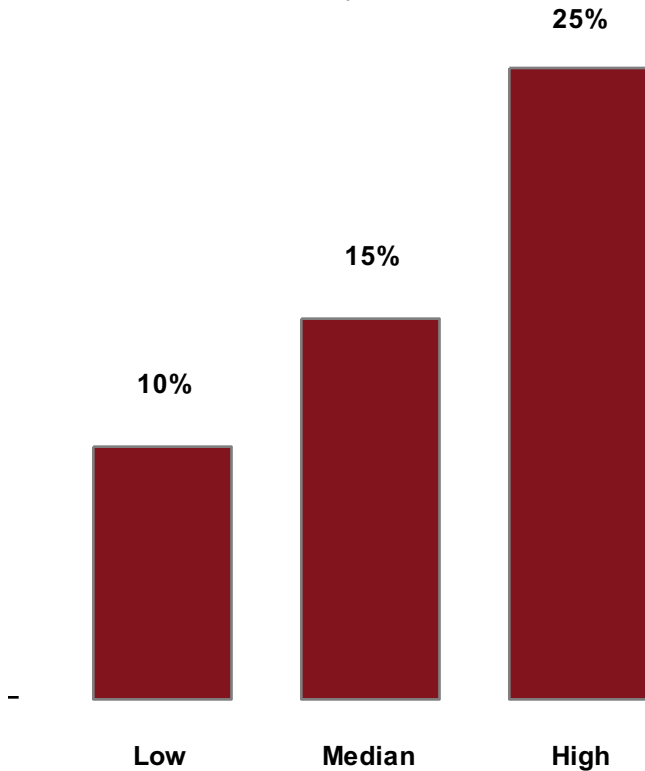




In our experience, CPG companies can often realize a 10 – 25% profit improvement on trade spend with enhanced capabilities

Driving Value from Enhancing Trade Capabilities

Typical Trade Spending Opportunity
Profit Improvement Based on Addressable Spend



Key Value Drivers

		Driver	Enabling Capabilities			
			Funding	Planning	Optimization	Systems
Efficiency	Eliminate inefficient funding	✓	✓	✓		
	Reduce trade spending administrative costs	✓			✓	
	Understanding cannibalization across channels and products		✓	✓		
	Eliminate unprofitable promotions		✓	✓		
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

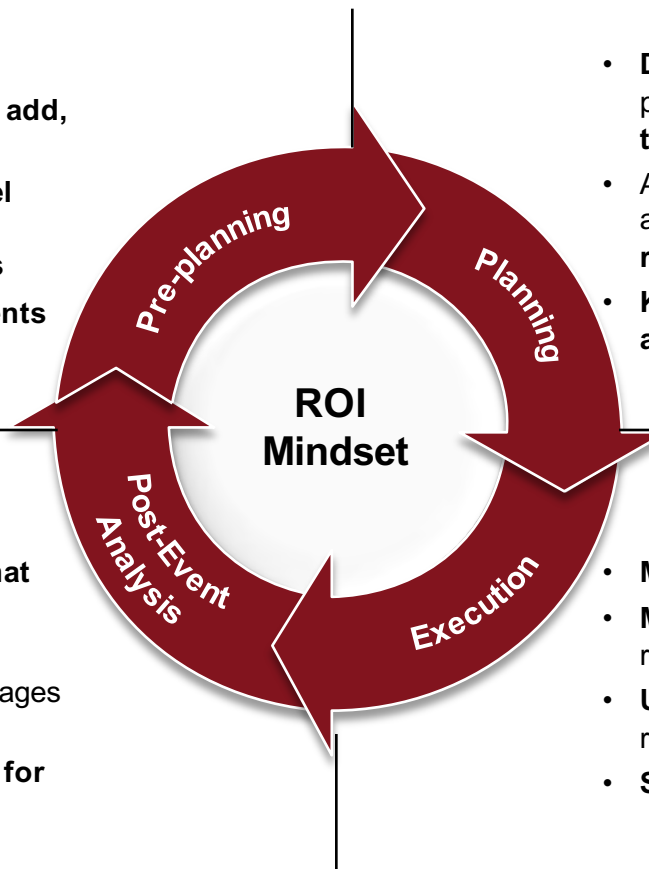
Developing the ROI Mindset

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**

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The opportunity and ROI Mindset

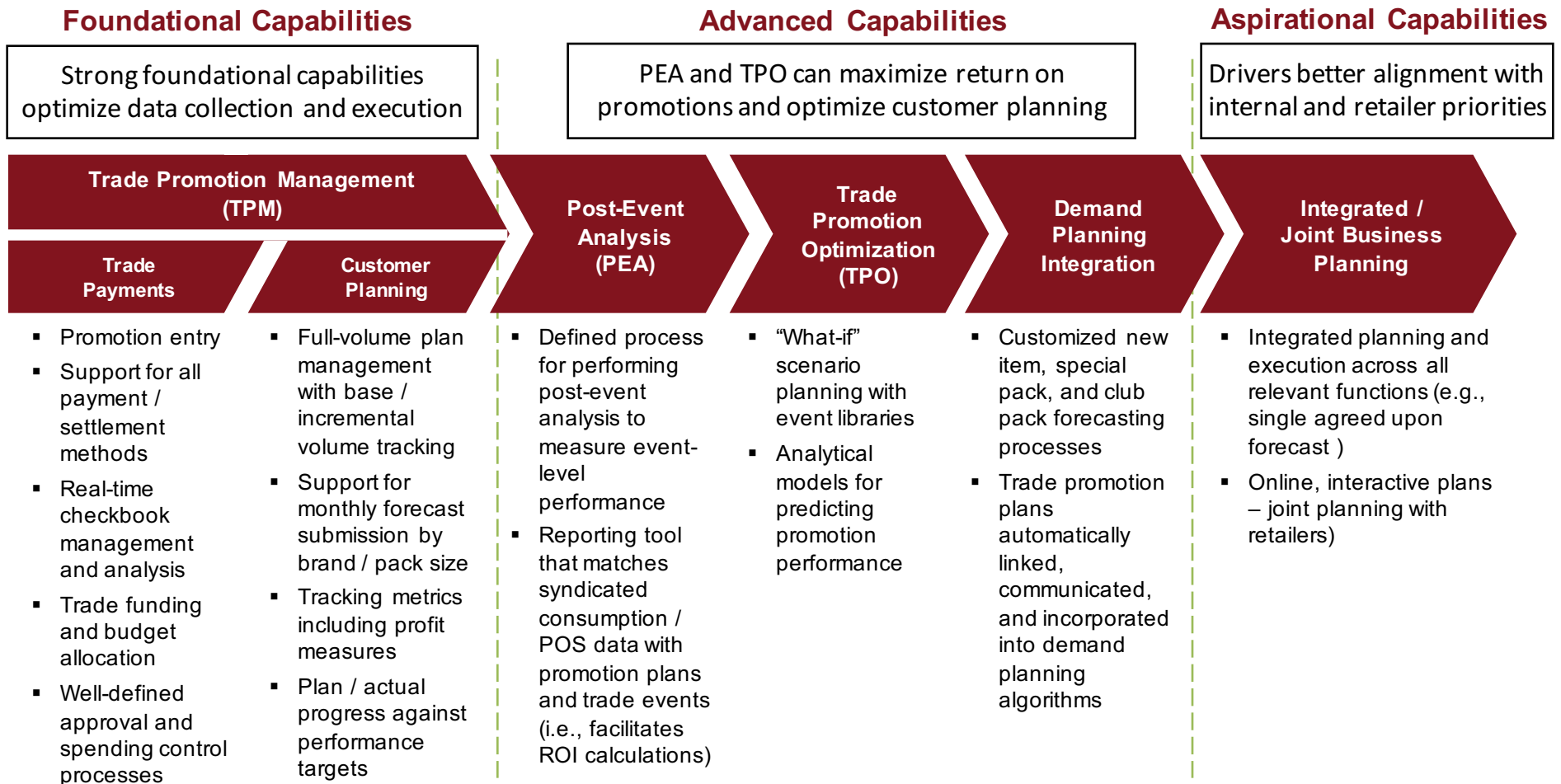
Building your capabilities around the ROI Mindset

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





Traditional TPM transformations typically focus on a combination of priorities

What TPM Should Deliver

Transparency into
Trade Spending

Control over
Trade Spending

Accurate
Sales Forecasts

Minimal
Administration

Key Benefits

- 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

Capabilities to Enable

- 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

Customer Plan Overview: Three Key Time Horizons

Client Example

	<i>Past</i>				<i>Current Date</i>	<i>Upcoming Months</i>				<i>Future</i>			
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	
Actual Volume	1000	1050	1100	1200	0	0	0	0	0	0	0	0	
Planned Volume	0	0	0	0	1200	1100	1000	1100	1000	1000	1200	1000	
Latest Estimate	1000	1050	1100	1200	1200	1100	1000	1100	1000	1000	1200	1000	
Target Volume	1000	1000	1100	1300	1200	1150	1100	1050	1000	1000	1200	1000	

Key Volume Input

1 YTD Actuals

- Actual sales volume data is brought in for past periods

2 Detailed Plans

- Field Sales enters plan details as promotion start dates approach
- Detailed plan data replaces estimates from high-level plans

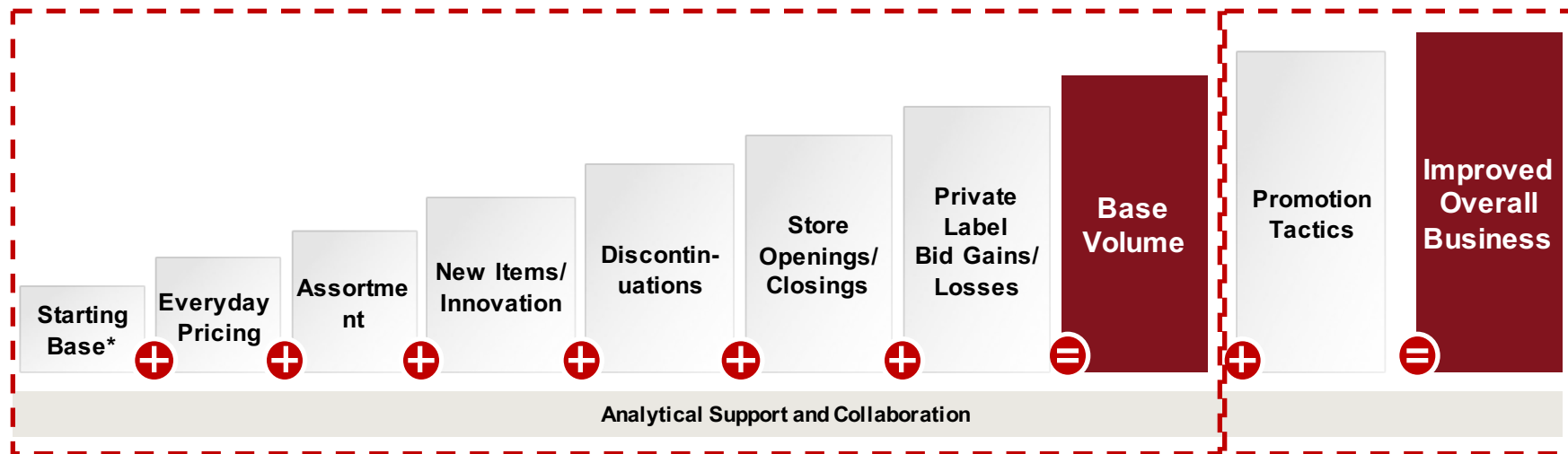
3 Directional Plans

- Field Sales plans volume at a higher level for activities that are in the more distant future



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



- Customer teams should evaluate all possible levers for enhancing base volume
- Utilize a collaborative approach bringing together cross-functional resources (e.g., customer insights, marketing, sales)
- Identify opportunities to shift focus of discussion with customers – towards category growth and profitability versus trade deployed

- Plan incremental volume – building on the base
- Several capabilities for optimizing promotion tactics will be discussed net



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

Common Metrics Leveraged in Promotion Optimization

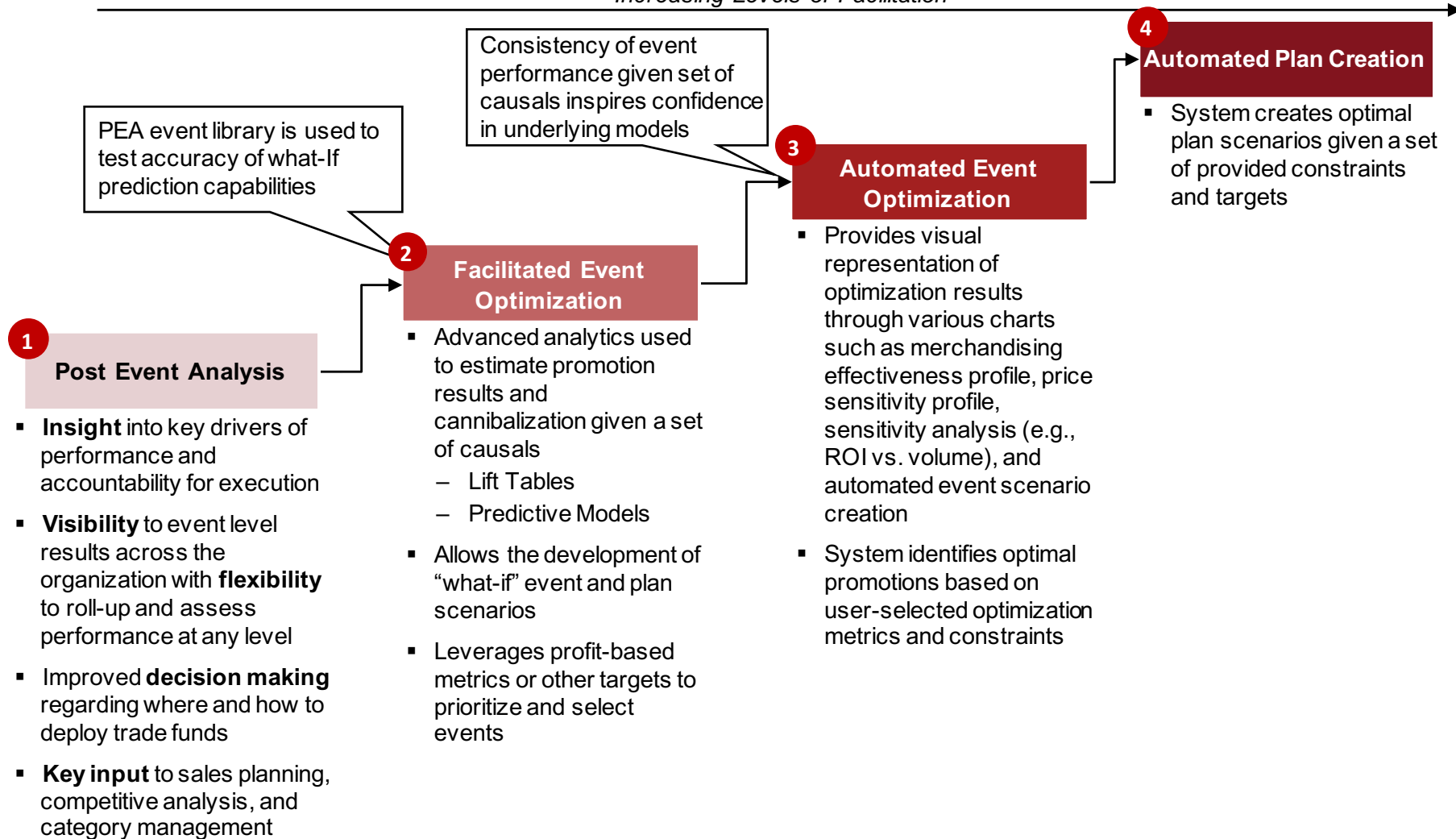
1	Volume Metrics <ul style="list-style-type: none">▪ Base Shipments▪ Total Shipments▪ Base Consumption▪ Incremental Consumption▪ EDLP Incremental	2	Spending Metrics <ul style="list-style-type: none">▪ Variable Spend▪ Fixed Spend▪ SMG Spend▪ Total Spend	3	Profit Metrics <ul style="list-style-type: none">▪ Net Revenue▪ Incremental Contribution▪ Contribution Change▪ Average VCM
4	Merchandising Metrics <ul style="list-style-type: none">▪ Promoted Weeks▪ Discount %▪ Base Price▪ EDLP Price▪ Promoted Price▪ % Feature▪ % Display▪ % Feature and Display▪ % ACV Non-promoted	5	Efficiency Metrics <ul style="list-style-type: none">▪ ROI▪ Cost per Incremental Case▪ Cost per Shipped Case▪ Shipment to Consumption Variance	6	Retailer Metrics <ul style="list-style-type: none">▪ Retailer revenue▪ Retailer profit▪ Retailer everyday margin
				7	External Metrics <ul style="list-style-type: none">▪ Competitive product set▪ Competitor price points▪ Competitor consumption volumes



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

Trade Promotion Optimization Capabilities

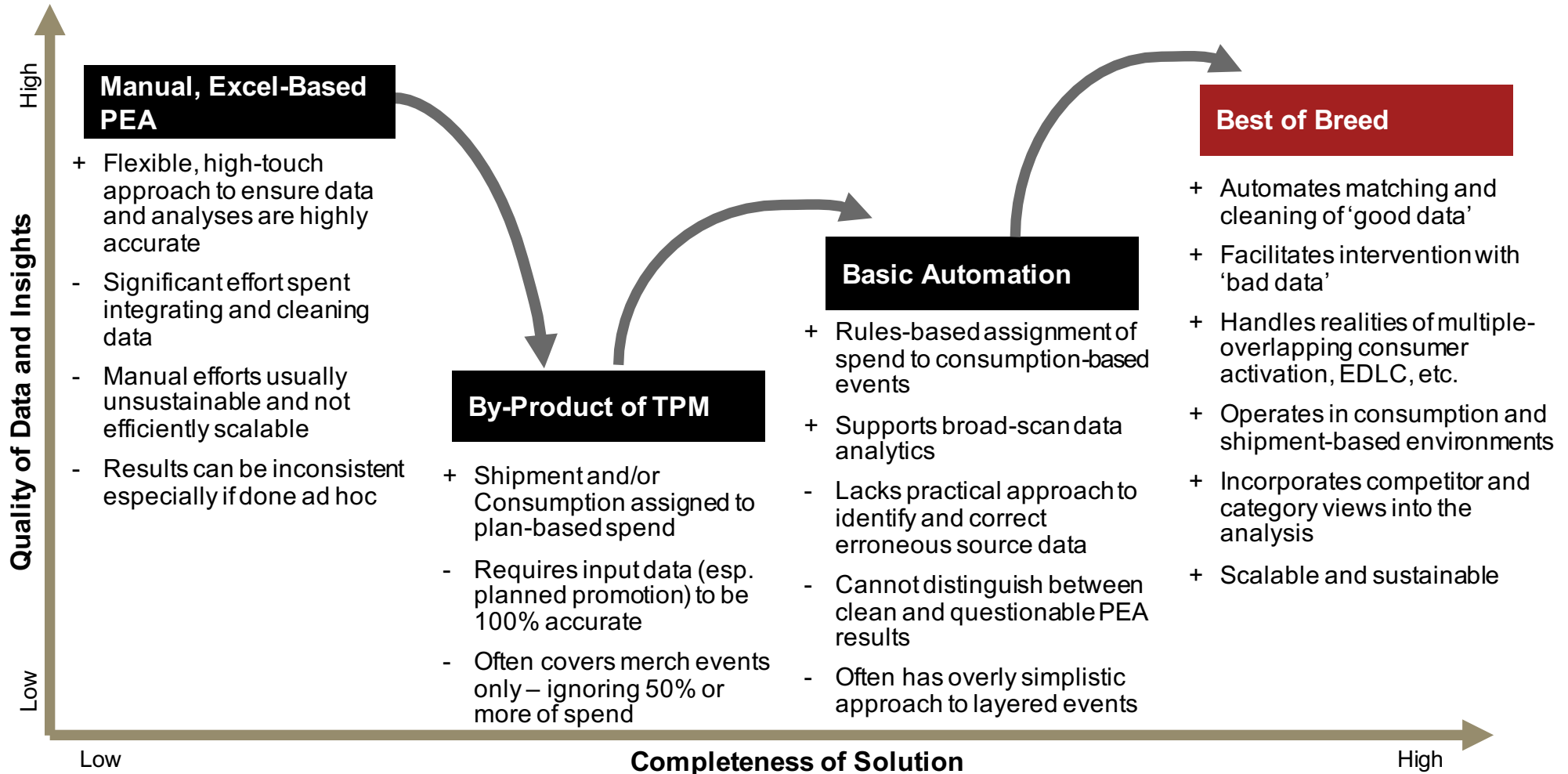
Increasing Levels of Facilitation





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

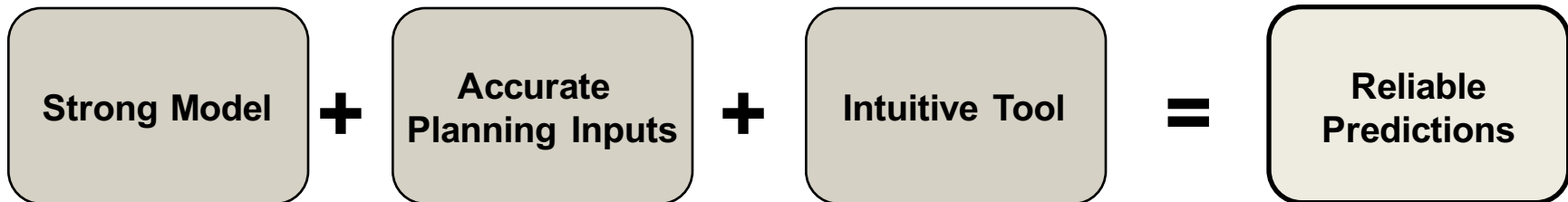
Evolution of Post Event Analysis as a Capability





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

Leveraging Predictive Models



Description:

With proper inputs, the model predicts accurate results within +/- 5%

Description:

Model inputs reflect projected execution, not just the promotion plan

Description:

Tool is intuitive and with robust and reliable functionality

Typical Challenges:

- No rigorous statistical validation methodology in place
- Can't handle some business scenarios accurately (drop-off over time, BOGO vs. TPR, etc.)
- Generic models that do not provide a high degree of accuracy for specific customer / product

Typical Challenges:

- Tedious to input detail at level of precision required for strong forecast (need for accuracy vs. directional)

Typical Challenges:

- Functionality
 - Questionable ROI metrics
 - Various functionality bugs
- Usability
- Performance



- Lack of Trust
- Frustration w/ tool
- Lack of adoption

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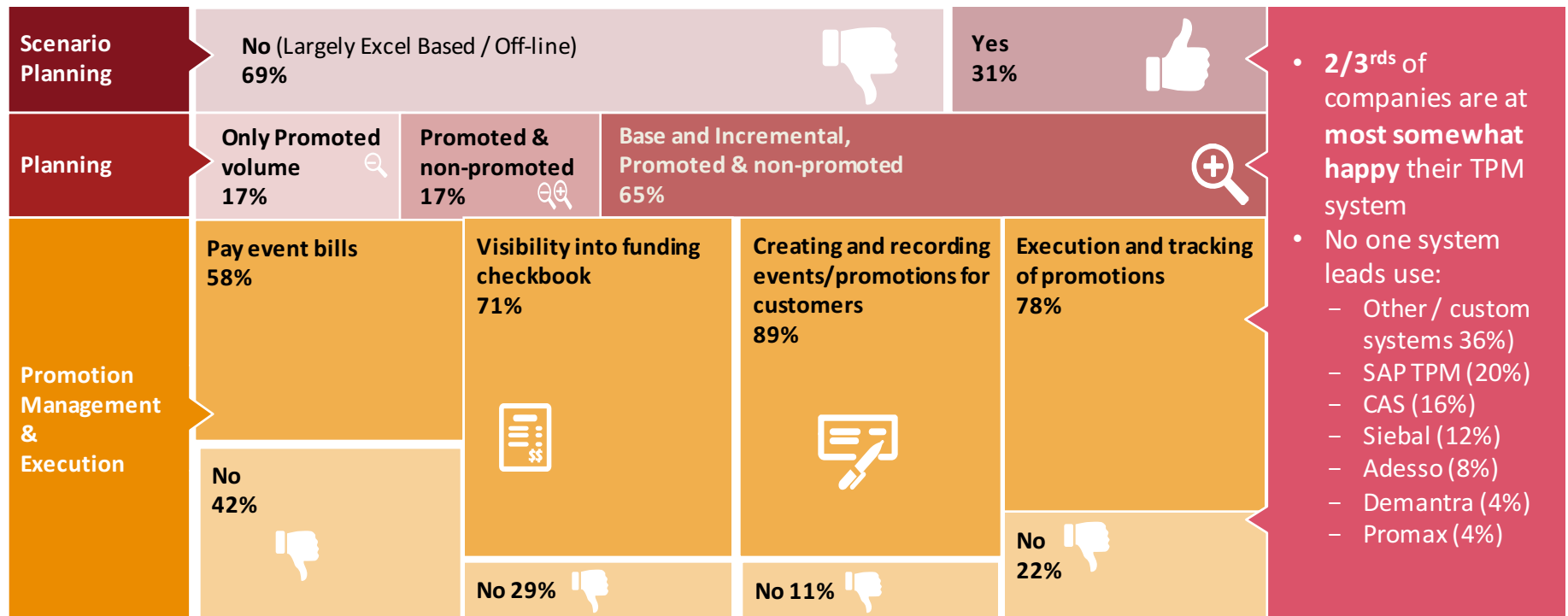
Our study examines trade practices across the CPG industry; we dedicate part to analytics processes and tools

- **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



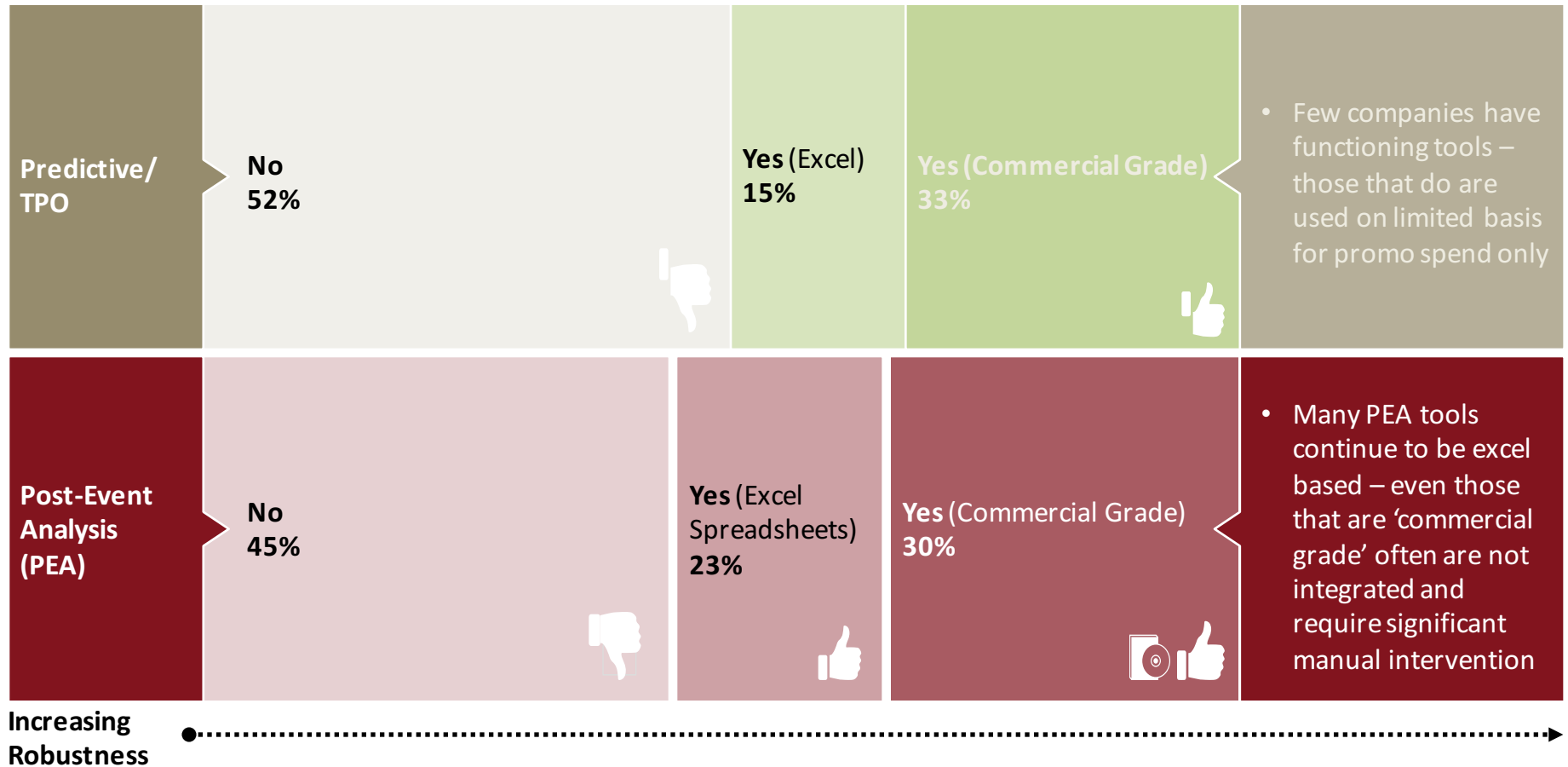
Increasing Robustness

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?

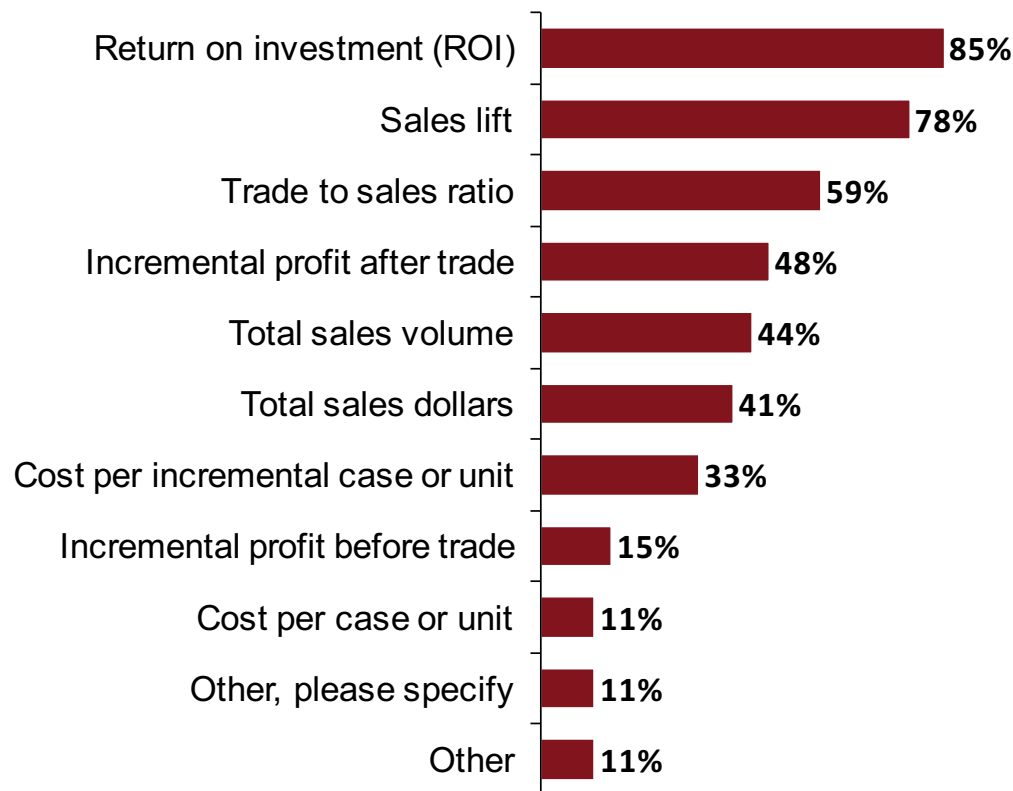
Question 4.12: Do you have a system or tool that supports or enables post-event analysis?

Strategy & Future of Retail, 2016 Strategy & Customer Planning and Trade Spend Management Benchmarking

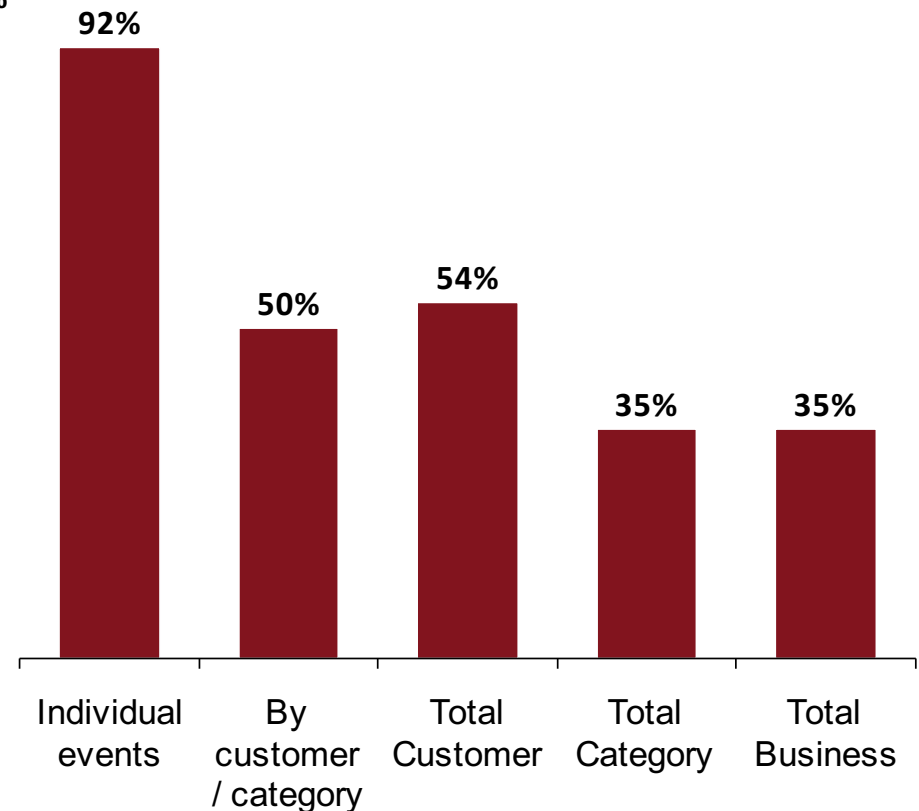


Companies leverage a range of metrics to analyze investments – event level ROI is becoming the standard

How do you measure effectiveness of trade spend?



If you measure ROI, at what level is ROI measured, reported and analyzed?



Question 6.1: How do you measure effectiveness of trade spend?

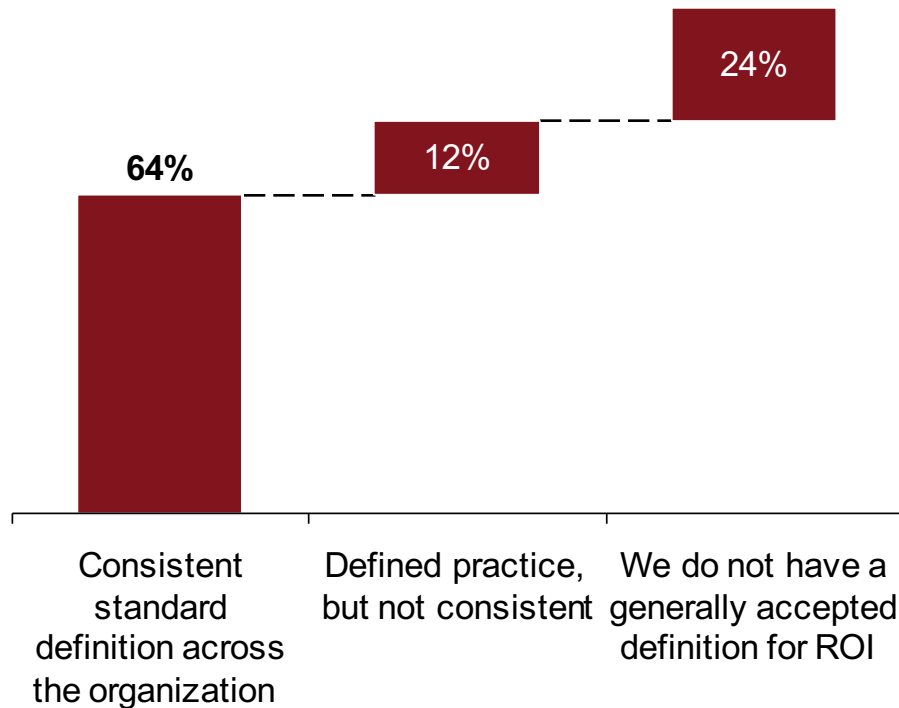
Question 6.3: If you measure ROI, at what level is ROI measured, reported and analyzed?

Strategy & Future of Retail, 2016 Strategy & Customer Planning and Trade Spend Management Benchmarking

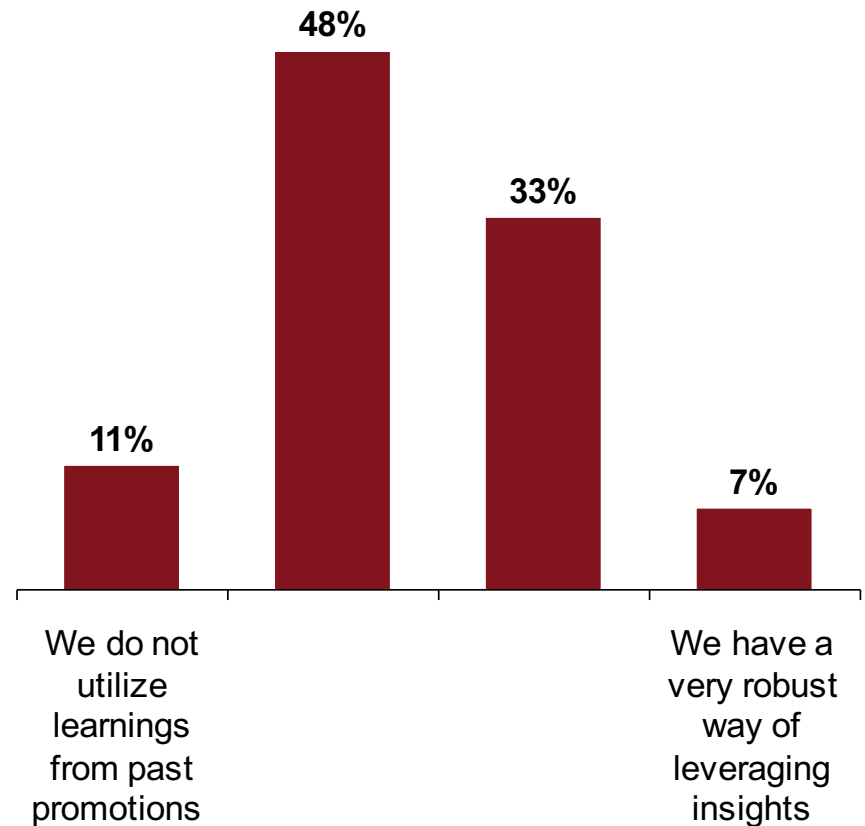


However, many struggle to translate these measures to insights that impact future plans

How consistently is this definition applied across the organization?



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



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

