

# POI Global Promotion Optimization Summit



**Big Data**  
**Pricing TPO**  
**Retail Execution**  
**Mobility TPM**

**strategy&**

## ***Show Me the Money!***

What it Really Takes to Capture Benefits  
from Trade Management Capabilities

Marc Hoogenberg

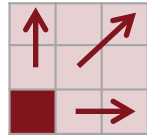


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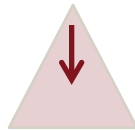
## ***Introduction***

- CPG companies have taken notable steps over the past several years to improve the effectiveness of their trade investment
- However, recent efforts to improve trade capabilities have largely failed to pay off as they don't see any clear and quantifiable gains show up on the P&L
- Why the lack of progress thus far?
- In part, it's because the trade promotion initiatives at many CPG companies are piecemeal efforts that lack a central coordinating premise or approach
- Based on our work with clients, we believe there is a better more comprehensive approach to improve trade spend effectiveness

# *Working with our clients, we've identified the following key success factors for getting the money from trade investment*



**Start Small to Demonstrate the Opportunity, Then Expand**



**Drive Coordinated Transformation from the Top**



**Set Actionable Targets Tied to Incentives**



**Work Closely with the Field to Embed the Capability**



**Diligently Track Benefit Capture**



## Start Small to Demonstrate the Opportunity, Then Expand

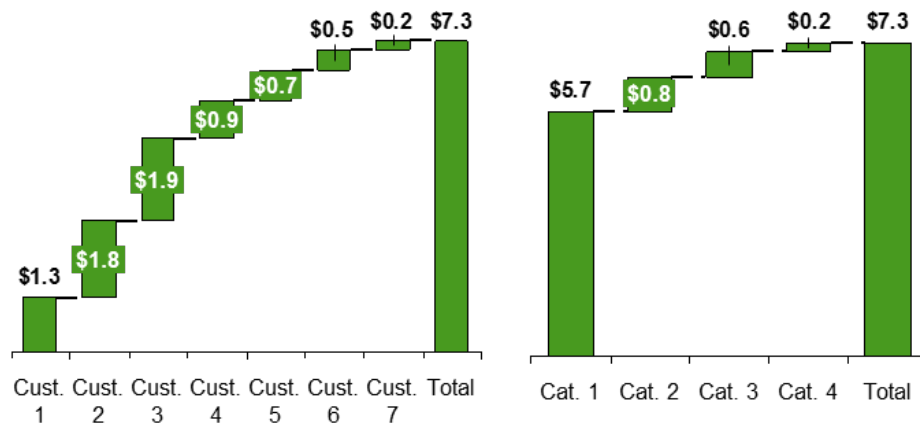
***Start by focusing on a subset of customer/category intersections to demonstrate value potential, then expand more broadly***

### Identify focus areas

Customer	Cat. 1	Cat. 2	Cat. 3	Cat. 4	Cat. 5	...	Total
Customer 1	Wave 1	Wave 2	Wave 1			Wave 2	
Customer 2	Wave 2		Wave 1	Wave 2			
Customer 3							
Customer 4	Wave 1	Wave 2	Wave 2				
Customer 5	Wave 1	Wave 2		Wave 1			
Customer 6	Wave 1				Wave 2		
Customer 7			Wave 1	Wave 1			
..						Wave 2	
Total							

Legend:  
Wave 1 (Green)  
Wave 2 (Yellow)  
Wave 3 (White)

### Demonstrate Value Potential

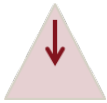


#### Client Situation:

- \$2B of Trade Investment across multiple business units, customers and categories
- 10-week pilot with 7 customers and 4 categories within one business unit
- Identification of \$7.3M of Trade Improvements

#### Key Takeaways:

- Pilot allowed organization to explore improvements without causing significant organizational upheaval
- Through “learning by doing”, client was able to understand challenges in scaling up, tools that may be required, possible process improvements and change efforts
- Program eventually expanded to 92 customer / category intersections, leading to \$100M in profit improvement



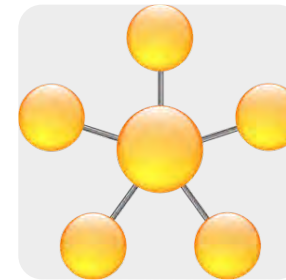
## *Drive transformation from the top – provide strong, central organizational leadership and program structure...*

### Central Organizational Leadership



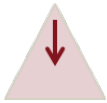
**Large Scale Transformations are best led by senior executives such as the Head of Sales and/or the Chief Financial Officer as they possess the clout to galvanize the organization around a shared objective of improved trade performance**

### Well Defined Program Structure



**At the start of the program, provide structure on scope, timeline and team:**

- Agree to in-scope customer-category intersections
- Lay out the timeline for working with customer teams
- Put the right team in place – this may involve working with an outside partner with deep trade experience to drive the change



*... and agree on the enabling tools for the program - realizing these programs require meaningful commitment & investment*

## Tools That Support Trade Value Capture

### Post-Event Analysis

- Post-Event Analysis provides a **baseline understanding**:
  - How did actual event performance compare to plan?
  - What was the reason for variation?
  - What corrective action should be taken?
- Most companies do not have automated PEA tools early in the journey
- Using a **manual approach** (Excel based) is helpful for when capabilities are new, and coordination with other processes must be put in place

### Predictive Analytics

- In addition to analyzing past performance, organizations may want to leverage **predictive analytics** to understand how promotion design levers can affect performance
- In the absence of sophisticated predictive tools, organizations may jump-start the effort by using **Excel based models** with lift coefficients for targeted Customer-Category intersections

### Planning Tool

- Once improvement opportunities have been identified, improvements need to be **embedded in annual plans**
- The tool should be able to specify a **Full Volume plan**, that separates the base business and its drivers from the incremental business
- Plan performance summaries should measure and **track the plan** against improvement targets
- In many cases a TPM system is focused on financial transactions and does not enable this type of planning – in such cases, **Excel based planners** may be useful



**Set actionable targets (e.g., at a customer/category level) ...**

**CLIENT EXAMPLE**

**Profitability Improvement Target Allocation – By Category...**

**...and Customer**

	D Trade Spend				D Gross Revenue				D Profit			
	Trade Red	Trade Re-All	ROI Impr.	Total	Trade Red.	Trade Re-All	ROI Impr	Total	Trade Red	Trade Re-All	ROI Impr	Total
<b>Cat. 1</b>	-	10	-	<b>10</b>	-	30	20	<b>50</b>	-	3	8	<b>11</b>
<b>Cat. 2</b>	-	-	-	-	-	-	5	<b>5</b>	-	-	2	<b>2</b>
<b>Cat. 3</b>	(15)	-	-	<b>(15)</b>	(20)	-	12	<b>(8)</b>	2	-	5	<b>7</b>
<b>TOTAL</b>	<b>(15)</b>	<b>10</b>	-	<b>(5)</b>	<b>(20)</b>	<b>30</b>	<b>37</b>	<b>47</b>	<b>2</b>	<b>3</b>	<b>15</b>	<b>20</b>

Trade reduction / re-allocation based on category dynamics

Clear understanding of the drivers of profit change is important

	ROI Impr. Target
CustA	\$3
CustB	\$1
CustC	\$1
...	
...	
<b>Total</b>	<b>\$11</b>

Allocated based on trade spend; adjust based on customer / category potential opportunity



*... and tie to incentives to ensure ownership for driving the benefit*

**CLIENT EXAMPLE**

Legacy Incentive Structure

	Company	Region	Team	Individual
Volume				
Gross Rev.				
Net Rev.				
Marginal Contribution				
Marg. Contr. Improvement				

**Key Challenges**

- Incentives not aligned with overall company or sales teams goals
- Incentive based on top line growth
- Targets established 'Top Down' without regard to actual plans and customer strategies

New Incentive Structure

	Company	Region	Team	Individual
Volume				
Gross Rev.				
Net Rev.				
Marginal Contribution				
Marg. Contr. Improvement				

**Key Benefits**

- Enhances ownership and rewards performance
- Encourages share growth: Higher payout for growth greater than customer growth
- Encourages optimal use of trade funds through profit margin component





## *Work closely with the field to embed the capability – we often leverage “SWAT” Teams to drive the change*

### SWAT Team Planning Approach

#### Evaluate Historical Performance



- Understand performance of trade spend in prior year and YTD
- Identify key themes that underlie superior and poor performance
- Identify major changes in retailer priorities and strategies

#### Optimize Customer / Category Plans



- Leverage a broad fact base to develop improvement hypotheses
- Construct a plan by selecting the best individual promotions
- Balance for trade-offs and constraints
- Test multiple scenarios and build an improvement and stretch plan

#### Sell In Plans to Customers

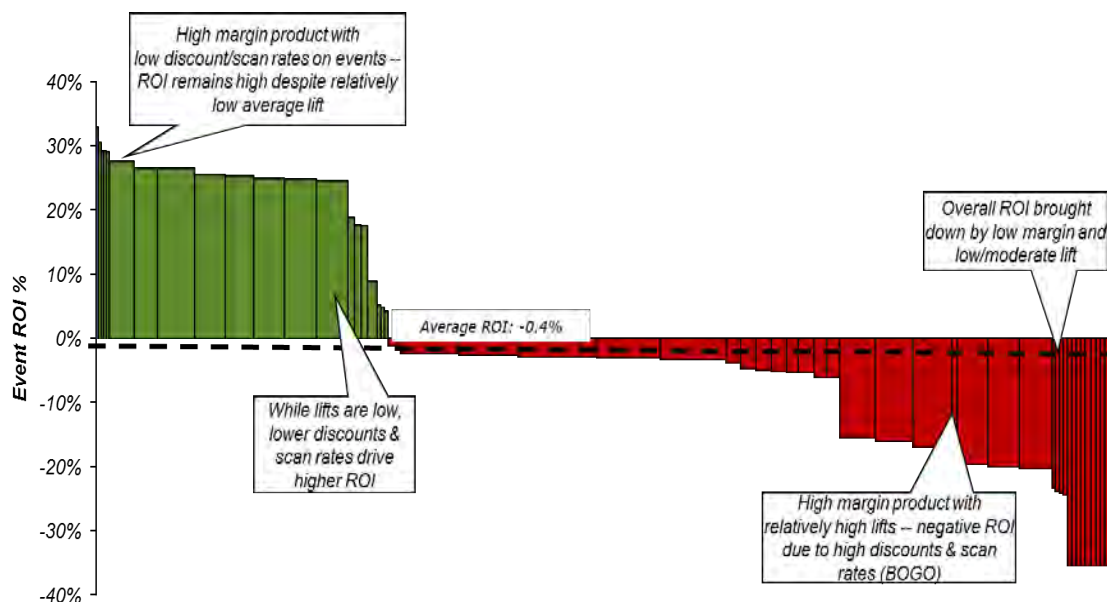


- Build compelling sell-in stories focused on “win-win” opportunities
- Ensure that the full plan improves customer economics with an emphasis on key metrics that the customer is focused on and is aligned to the customer strategy



## Perform post-event analysis and develop improvement hypotheses across a comprehensive set of levers

### Analysis of Historical Trade Events



### Improvement Levers

Promotion Event Design

Terms and Margin

Execution

Value Leakage

EDLP Pricing Support

Co-Marketing Funds

Move Trade Funds (within a category)

Category Trade Rates

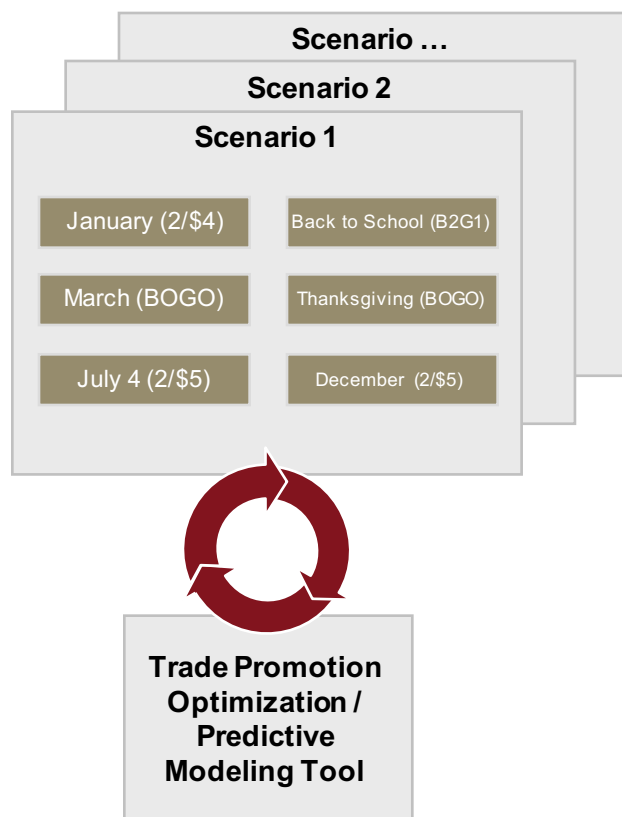


# Model scenarios to identify optimal plans that balance manufacturer and retailer criteria and hit required targets

A library of events served as the building blocks for developing plans

Event Description	Dur.	Mfg. ROI	Retailer Cont. Index
July 4 (2/\$5)	1 wk	139%	59%
December (2/\$5)	1 wk	113%	44%
Super Bowl (2/\$5)	1 wk	110%	43%
Back to School (B2G1)	3 wk	44%	28%
January (2/\$4)	4 wk	17%	18%
Memorial Day (BOGO)	1 wk	10%	11%
July 4 (BOGO)	1 wk	10%	11%
Thanksgiving (BOGO)	2 wk	0%	7%
March (BOGO)	1 wk	-1%	9%
Easter (BOGO)	1 wk	-2%	8%

These events are combined into multiple plan scenarios and modeled via a TPO tool



These scenarios are evaluated against key manufacturer and retailer criteria to select the optimal plan





## *Develop compelling sell-in stories to ensure plans are agreed to by retailers*

### Key Elements of Winning Customer Sell-Stories

<b>Anchored by Customer Objectives and Metrics</b>	<ul style="list-style-type: none"><li>▪ Understand customer's competitive strategy as well as the roles of the category and manufacturer's brands</li><li>▪ Understand specific buyer objectives and metrics</li></ul>
<b>Highlights Category Insights and Manufacturer Role</b>	<ul style="list-style-type: none"><li>▪ Highlight overall category trends and manufacturer/ retailer performance</li><li>▪ Anchor plan discussion in category management objectives and rationale</li><li>▪ Highlight innovation pipeline</li></ul>
<b>Summarizes Plan Benefits</b>	<ul style="list-style-type: none"><li>▪ Present overall plan vs. prior plans</li><li>▪ Identify how current plan improves performance against retailer objectives</li></ul>
<b>Details Specific Tactics, Grounded by Robust Analytics</b>	<ul style="list-style-type: none"><li>▪ Detail event specific tactics highlighting key issues and gaps in prior plans</li><li>▪ Present analytics showcasing why changing event tactics drives superior results</li></ul>
<b>Reinforces Customer Benefits</b>	<ul style="list-style-type: none"><li>▪ Reinforce customer benefits</li><li>▪ Reiterate why plan results in a near term and long term win-win collaboration</li></ul>



# Diligently track benefit capture to ensure the identified opportunity is realized on the P&L

**CLIENT EXAMPLE**

## Case Study: Benefit Tracker

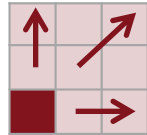
		Month: X YTD					Change vs: B/(W)								
		Trade Spend \$s			Trade % of Gross Revenue		ROI			Trade Incremental Profit Improvement					
		\$ Change vs.		% Change vs.		Change vs.		Chg. vs.		MEMO:		Change vs.		MEMO:	
<i>in millions</i>	Actual	'11 AC	YAG	'11 AC	YAG	Actual	'11 AC	YAG	Actual	YAG	FY Target	Actual	YAG	YAG	FY Target
<b>Customer 1</b>	\$	\$	\$	%	%	%	pp	pp	%	pp	%	\$	\$	\$ chg	\$
Category 1									1		3	1		4	2
Category 2															
Category 3															

- 1 Incremental Profit<sup>1</sup> and ROI<sup>2</sup> were captured monthly and tracked YTD--given data availability
- 2 Incremental Profit improvement target for in scope category-customer intersections based on share of trade spend; Individual compensation incentives are based in part on achieving this target
- 3 ROI target was back-calculated to provide visibility into ROI required to meet Incremental Profit improvement metric
- 4 To track monthly progress against Incremental Profit Improvement:
  - Actual Incr. Profit was calculated based on current year Volume and List Prices
  - YAG Incr. Profit was calculated based on YAG Incremental Volume and List Prices

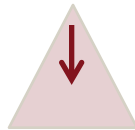
1. Defined as (Incremental Volume \* VCM)

2. Defined as (VCM \* Incremental Volume - Total Spend)/(Total Spend)

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***Thank you for your time today – please feel free to reach out to discuss any of these topics in more detail***

**strategy&**



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