POI
PROMOTION OPTIMIZATION INSTITUTE

Promotion Optimization Institute, LLC

Winning through More Insightful, Better Executed Promotions

Introduction

In a previous publication titled, The Evolution of Crowdsourcing: Rise of Performance-Driven Merchandising [poinstitute.com/wp-content/uploads/2017/03/TheEvolutionofCrowdsourcing-RiseofPerformance-DrivenMerchandising.pdf] we established how crowdsourcing can improve promotional execution. The document is definitely worth reading as it is a precursor to this paper.

As an introduction to crowdsourcing within the retail environment, please think of it as quickly capturing store-level opportunities, getting the right people tasked with addressing them (brokers, merchandisers, delivery drivers, etc.) and then continuously managing against KPIs to improve the cycle.

With that as a backdrop we can now continue with the topic of improving promotions as a companion paper to the one previously mentioned.

Background on "Better Executed, More Insightful Promotions"

Improving promotional effectiveness and efficiency have been topics of considerable effort for decades. Today we see entire teams dedicated to this task in functional areas such as Revenue Management, that didn't exist 10 years ago. Nevertheless, funds spent on trade promotions, which is to say those that are executed in retail stores, have increased steadily over time with varied results. The Promotion Optimization Institute focuses on understanding and reversing this trend. In survey-based research this year we have found that only 14% of consumer goods manufacturers are actually satisfied with their ability to manage trade promotions. And this number is actually down from 19% in 2016. Similarly, a seminal study done by Nielsen in November 2015, found that two thirds of promotions do not yield a positive ROI and that 22% of them actually perform worse than if no promotion had actually happened.

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We believe that focusing on key executional elements and bringing more insights about what is happening at the store level are critical to more effective and efficient promotions as a collaborative effort with retailers. We now look more deeply into the elements of the promotion cycle with two assertions that we believe are often overlooked, which has contributed to the diminished promotional outcomes that we are seeing.

Assertion Number One: A well-executed promotion must first be well planned

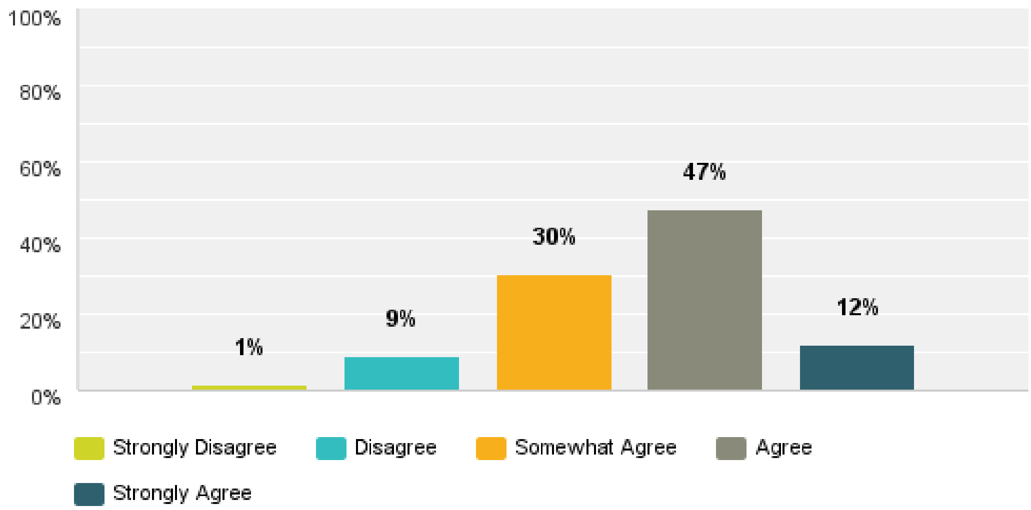
This would appear on the surface to be a truism. However, in the marketplace, we find that:

- Most promotions are run year after year, often with only slight or no changes to the key controllables. This is often referred to as being "grandfathered". The insights required to adapt and improve a promotion are often lacking so rather than call attention to those all those promotions that don't work, it is easier to just run them over and over.
- Store level data is required to do it better. Some of this data may be available through what is shared by retailers such as POS, but physically seeing a display, where it is located, what the competition is doing, verifying the presence of

merchandising, and so forth cannot be accomplished through an aggregated data feed. And having a photograph of the shelf/section is all the better where possible.

- As with evaluating promotions solely based on POS data, doing so based on shipment data alone will miss qualitative factors, which are the crux of the exercise. There are faster, cheaper and better alternatives to a massive data integration project between an ERP and TPM solution. Being in the store is essential in order to capture salient details such as display type and location, and any POS elements that were present. In other words, it is critical to know how the display was executed, not just simply whether it was present or not. Otherwise there is no basis for continuous improvement.
- Promotional compliance is already low. Retailers often execute something other than what has been agreed upon. They either don't fully believe in the plan or don't understand what the critical elements in the plan are that really drive results. As a result, focus on executing all elements of the promotion is lacking. Much of this is perpetuated by the promotion being grandfathered year after year and lacking in substantial insights. For example, there are many details that could potentially go into a display promotion. Price, assortment, location, type, and the buyer may not adhere to all this because they don't understand that displaying in the deli section will get them the highest lift. Hence, the retailers basically do what they want. The 2016-2017 POI State of TPx and Retail Execution survey data bears this out as follows:

Chart 1. Responses to the statement: "You have challenges with putting together a good plan, but not getting retailers to execute it as agreed upon (in other words, having compliance issues).

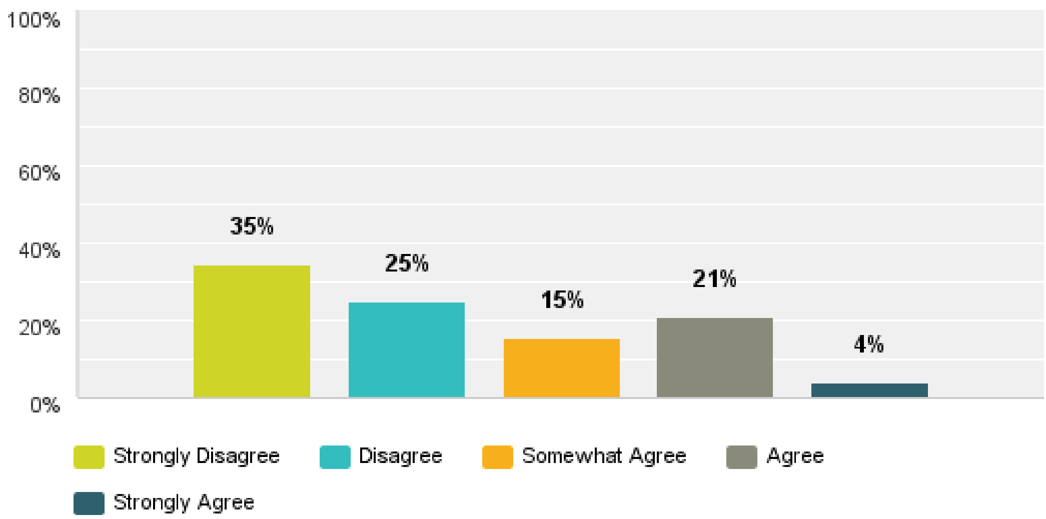


Source: POI Research. 2016-2017 TPx and Retail Execution Survey

Only 10 percent are getting the promotional performance that has been agreed upon in the plan. We find that this often stems from lack of buy-in on the part of the buyer in the retailer organization. In order to combat this, consumer goods manufacturers, or their agents, must be able to harvest insights, turn them into a compelling sales proposition, and secure real buy-in from the buyer. Our case study a few pages further on will illustrate this point, but absent this real buy-in, retailers will continue to take the promotional monies and do what they believe to be best. There is also risk that they will also do their own version of retail execution and effectively lock out brokers and direct sales personnel. We are seeing this trend today. Retailers charge a fee to manufacturers for services performed at retail. As a result, cost goes up, insight disappears, and execution suffers.

- There is minimal ability to capture cause and effect insights in the promotional process. Again, this is because averages usually mislead. As an example, most manufacturers employ pay for performance funding strategies. However, what they actually look at in terms of performance are averages, which don't capture multiple complexities and interdependencies of performance that allow for store segmentation and analysis. Therefore, despite the effort to employ pay for performance strategies, many manufacturers are still paying for execution they never received. Knowing what drove or didn't drive performance at the outlet level forms the basis for insights, which drive a greater desire for collaboration as manufacturers have more to bring to the party.
- The vast majority of manufacturers cannot evaluate more than a handful of their promotions, let alone as deeply and frequently as they want. The 2016-2017 POI State if TPx and Retail Execution survey data points this out as follows:

Chart 2. Responses to the statement: "Your post event analysis process is automated so that reports are automatically populated and you can view as many promotions as you want as often as you want."



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

Not only do most manufacturers admit that they cannot go deeply into analyzing their promotions, but our deeper conversations with them indicate that the norm is 2 to 3 promotions at their top 5 accounts, which leaves the majority of promotions never seeing any analytical rigor.

We recognize that integrating all the data sources required to do automated post event analytics is a daunting process. In all of our industry interactions the greatest percent of promotions that we have seen a consumer goods company be able to evaluate is about 40 percent, and that is because they have an analytical pool of dozens of individuals dedicated exclusively to this task. That still means there are more blind spots than illumination in the promotion cycle and that there is a great deal of latency between execution and evaluation.

But, more insightful planning is only one aspect. Once a promotion has been planned with greater utilization of available insights, there is still a need for in-flight adjustments, which brings us to the second assertion.

Assertion Number Two: A better promotion will typically require some in-flight intervention

The essence of in-flight intervention is being able to detect opportunities with enough time to make changes. What we have found is that crowdsourcing is well suited to detect these opportunities and drive greater ROI because:

1. There are substantial blind spots in the retail marketplace that crowdsourcing can identify and help to fix through continuous measurement and focus. Crowdsourcing is not new to most people. However, thinking of it as a business process that includes managing KPIs and driving towards continuous improvement is where much of the added value comes in for retail execution. Keep in mind, though, that crowdsourcing focuses on identifying issues and opportunities quickly so that a field force such as brokers or merchandisers can address them, thus driving greater business benefits. Thus, crowdsourcing is not a substitute for a broker or direct sales force, but complementary to both because of its ability to perform rapid and deep capture of information on retail conditions.

1. Store-level data with low latency is the key. The old adage that averages lie is never truer than in retail execution. Extrapolating to some stores based on others just isn't a workable model, as each one is relatively unique. Similarly, waiting for the field force to visit a store during the course of a weekly or monthly visit cycle will leave opportunities unaddressed for extended periods of time.

2. Better execution means more top line revenue as well as more bottom line through cost reduction. This improved execution comes as a result reducing the time required to address opportunities or issues at retail. It creates a division of labor where skilled and higher cost personnel are focused on executing as opposed to the observing retail conditions. This results in reduced cost because there is less need for sales reps to spend so much time observing conditions and transitioning from store to store, but instead, keying those stores that require attention and can yield the greatest impact.

Thus, considering the presence of blind spots, lack of granular data, and inability to make rapid adjustments to promotions while in-flight, the market largely relies on an approach that can be described as "plan and then hope". This is obviously not a viable strategy but there is still hope because:

- Continuous measurement and KPI monitoring provide the ability to course correct a promotion with minor adjustments.
- Detecting an opportunity before it is too late can be a rallying point for both manufacturer and retailer as they work together to optimize promotions, as opposed to throwing resources at it independently, often to the detriment of their partner.
- A flexible, crowdsourced field force can be brought to bear quickly and effectively to provide visibility into where the interventions are required. Such an intervention can be done by a broker, distributor, or direct sales force. It doesn't matter. But to do so they have to know specifically where, how and when to take action.

An excellent way to illustrate both of these assertions is through an appropriate case study. Here both elements are present. A seasonal promotion strategy for a household product was clearly outlined and agreed upon with key metrics and presented to the retailer, monitored/managed along the for way continuous improvement, and built upon as an insight for subsequent periods. The specifics are as follow:

Case Study: Household Cleaning Products Manufacturer

Situation:

- A top household cleaning products manufacturer was merchandising a seasonal quarter pallet display program in Target stores and wanted to evaluate the in-store execution of the vehicle as well as measure its effectiveness when executed properly.

Approach:

- Program Design
    - Define goal: understand true display compliance to promotion planner and the effectiveness of the quarter pallet vs. other display types
    - Align on key metrics: Display compliance, sales lift, Promotional Program Value (PPV - Lift off of display vehicle as compared to the cost of the vehicle itself)
- Program Implementation
    - Measured display compliance on various display vehicles in 2015
    - Performed promotional insights assessment to understand sales impact of the display when executed properly
    - Modeled a PPV analysis to demonstrate the value of each types of display vehicles, with the quarter pallet in particular
    - Manufacturer utilized all data analysis (display compliance %, sales lift impact, and PPV) to secure the retailer's commitment for additional focus on the quarter pallet display program for the 2016 season

Results:

- Display compliance on the quarter pallet display vehicle in 2015 was 32%
- When the quarter pallet was executed to plan, it generated a 227% sales lift over stores that did not execute the display
- The quarter pallet generated a higher lift than other display vehicle types (161% sales lift)
- Quarter pallet ROI equated to $7.25 for every dollar invested on the display vehicle
- Based on this compelling anecdotal evidence, the retail buyer authorized an incremental quarter pallet in all store locations
- In addition to the authorization, the retailer heightened focus with store operators in 2016 and as a result, display execution increased YOY from 32% to 73% on that particular quarter pallet

Next Steps:

- Extending the same analysis for all top SKUs within the company to drive improved performance in additional categories

The ability to show the buyer at Target Stores where the opportunities were in advance and then effectively manage against them was not only successful on an increased ROI basis for the 2016 season, but will also set the stage for more collaborative merchandising efforts later on.

Summary and Call to Action

The combination of our Two Key Assertions plus the case study provide a compelling illustration for how ineffective promotions can be addressed. No longer will too much of performance be left to chance or will promotions need to be largely the same ones year after year due to lack of insights. Manufacturers will no longer be paying for performance that suffers from major gaps in causal data because they don't have sufficient store-level data. They will also have a better ability to influence a promotion in-flight to further improve its execution and ultimately effectiveness.

Gathering data at the store level through a crowdsourced presence provides the ability to influence promotional outcomes in the short run and insights in the longer term.

What we're advocating is a new approach to the promotional cycle that includes store level insights in the planning and monitoring process. Gathering data at the store level through a crowdsourced presence provides the ability to influence promotional outcomes in the short run and insights in the longer term. This can then be injected into the process to provide a better, more insightful plan, which in turn makes the manufacturer a more valued collaboration partner. The case study shows how this collaboration is increasing and even paying dividends on other categories. This focus on improved promotional performance such cut across multiple functional areas: sales, finance, revenue management, marketing and trade marketing.

Given the potential of crowdsourcing as an enabler to a better trade promotion we now look at Quri as a partner to make it happen.

Why Quri?

As a leader in what was once called crowdsourcing but has evolved to become Performance-Driven Merchandizing, Quri offers the combination of:

- High level of expertise as evidenced by length of time in market, exclusive focus on the consumer goods industry, and an impressive client list consisting of more than 50% of the top consumer brands currently using Quri.
- Scale based on a current ability to reach 150,000 stores in 6,000 cities nationwide.
- Proven ability to execute for both large and small companies.
- Level of innovation with analytics capabilities for turning data into insight and action in near real-time.
- Strength of client references based on proven results.
- Vision to expand coverage to include more stores in more cities and more analytical horsepower to improve results.
- Ability to dovetail with your current retail execution efforts based on your unique needs.

Offering a complete set of end to end services from helping to set up KPIs to data collection to the analytical tools for turning the data into actionable insights.

Who to contact?

David Gottlieb
President & COO
dgottlieb@quri.com
(888) 886-8423

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.

Dale can be reached at dhagemeyer@p-o-i.org

About the Promotion Optimization Institute (POI)

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.

For more information:

Visit www.poinstitute.com

Additional POI contact information:

Michael Kantor
Founder & CEO Promotion Optimization Institute (POI)
914-319-7309
mkantor@p-o-i.org