PROMOTION OPTIMIZATION INSTITUTE

## The POI 2018 TPx and Retail Execution Report

# The State of TPx and Retail Execution for Global Consumer Goods and Retail

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## Introduction

As with our previous surveys, the 2017-2018 Promotion Optimization Institute (POI) TPx and Retail Execution Benchmarking Survey continued to focus on the intersection of the people, processes, and technologies required to be a suitable collaboration partner in the promotion and distribution of consumer products. This report utilizes the data and insights from the survey executed in late 2017 and early 2018 to discuss where consumer goods manufacturers are succeeding and struggling. We also continue to incorporate longitudinal data, which looks at how the benchmarking changes over time. To take a deeper look into capabilities and vendor offerings, see the POI vendor panoramas for both TPx and Retail Execution at poinstitute.com/about/poi-publications/.

## Summary and 'Big Ahas' from the Research

The POI's survey probes various dimensions across go-to-market capabilities. We found these in particular to be thought provoking:

- The lack of linkage between digital and traditional promotion is substantial. We now have data to show where CG companies are on their journey to 'fully integrated.'
- Data is still king. Our survey results show that retailers are looking for more ways to make money by charging for their scanner data, or else denying access altogether.
- Concerns about the ability to profitably do business with Amazon increased dramatically from last year and far outstrip those related to Walmart.
- Satisfaction about the ability to manage promotions increased for the first time in the history of our survey, while satisfaction with Retail Execution went the other direction.
- CG manufacturers continue to be less interested in how a technology is delivered to them. Preference for on-premises solutions actually grew in some areas, while preference for cloud declined. The biggest change from last year was for "No Preference" around how a technology is delivered.
- Artificial Intelligence (AI) will happen in both TPx and Retail Execution sooner than you probably think. Our survey data reveals when CG companies think it will happen.

Because CG companies typically keep their technologies for many years, we are always keen to detect small shifts from year to year, but readily acknowledge that many very real challenges still persist. The role of the POI is to highlight those shifts and opportunities to keep our members at the vanguard by challenging the status quo.

## Rationale behind the Survey

POI seeks to serve its members by identifying both the successes and challenges in the promotion and distribution of consumer products, and then analyzing them at global events and through written research, share groups, webinars, and advisory services. The focus areas of this survey were selected based on the summation of our beliefs about where the challenges exist today and a desire to get them out in the open so we can address them.

## Section 1: Looking Back

In our previous POI State of TPx and Retail Execution Survey Analyses we focused on 8 key implications, which we believe continue to be highly relevant today. We also provided recommendations for each of these implications. If you need further details on what any of the implications mean, we recommend that you review the prior year reports at poinstitute.com/about/poi-publications/.

The results show a mix of both improvements in certain areas and declines in others. The following chart shows the Key Implication, how it has changed for the better (favorably to collaboration and improved results) or for worse, and designate a continuing trend as well as a reversal of a prior trend. We also provide some rationale in the form of a preliminary "upshot" with the understanding that trends often take multiple years to fully manifest themselves. Also, due to a changing environment, we face challenges getting all the same people in all the same companies to respond year over year.

**Implication 1 from the prior Survey and Analysis: Manufacturer/retailer collaboration is strained.**

| Measures | Change from prior year, and trend | Upshot |
|---|---|---|
| Data quality issues from external sources (POS, syndicated, etc.). | 5 PP better, reversal of trend | Still only 20% claim they don't have data issues. Clean data is the basis for being able to do the important things like post event analytics, RAO, and TPO. |
| Retailers freely sharing data. | 3 PP worse, reversal of trend | This was a significant change in the wrong direction. 90% of respondents still have this issue and it is highly disconcerting since data drives insights, which are the currency of collaboration. |
| Retailers giving sufficient access to their stores. | No change | It is alarming that 73% of respondents still state that this is an issue, but given the lack of productivity tools and ability to make decisions at store level, it is the natural outcome. Our research shows that as sales reps bring insights to the retailer and are able to make decisions that impact that store, they are more welcome. |
| Compliance issues — promotions do not get executed as per plan. | No change | A key sign of how collaboration is still strained. 90% still report issues here. This must be addresses to ensure that emerging formats like omnichannel and personalized offers can take hold. |

## Recommendations related to retailer data, store access, and compliance:

- Have a candid conversation with existing data suppliers, whether it is the retailer or a third party, about data quality.
- Document instances where you are not given adequate access to stores. Open a dialog on why this is happening. Ask what it would take to get better access. Better retail coverage? More sharing of insights?
- Build a joint business case around data sharing. But you have to ask for data. Many European retailers did not provide data until they were specifically asked and engaged through a business case. As a whole, they are now more willing to provide data then retailers in North America.
- Tie promotional non-compliance into post event analysis to demonstrate how compliance drives mutually beneficial ROI. Use simulation tools to show how various compliance scenarios will drive levels of ROI.
- Segment customers based on compliance and profitability, not the traditional ACV where the biggest retailers get the most attention.
- Establish accuracy thresholds. Do some root cause analysis on what is driving inaccuracies.
- Do a pilot with a retailer that currently does not provide data. Set expectations about the value of collaboration and insight sharing.
- Be prepared to change data suppliers if necessary. There are multiple options and multiple methodologies for harmonizing, scrubbing, and making data available.
- Continue to press forward with the “sell more” capabilities that enable field sales personnel to better serve the retailer and to improve decisions at the store level. This will earn the right for additional store access.
- Recognize that there is no simple solution to data quality, but it starts with acknowledging that there is a problem and focusing on mutually solving it.

**Implication 2 from the prior Survey and Analysis:**
**Too much focus on software and solutions, not enough on best practices.**

| Measures | Change from prior year, and trend | Upshot |
|---|---|---|
| Vendor/service provider provided them during TPx implementation. | 9 PP better, continued trend | We continue to recommend this in our live presentations and written research. This has resulted in more urgency around asking for best practices. Nevertheless, 29% say they still didn’t get best practices and 49% say they only ‘somewhat’ received them. |
| Vendor provided best practices during Retail Execution deployment. | No change | Still only happening in 62% of cases and 48% only ‘somewhat.’ There is a tendency to automate existing retail execution processes with technology without asking how they might be done better. |

It is a bold statement to say that best practices are more important than software and solutions, but we believe change management issues (as we will look at later on) combined with continued issues with user experience, mean that tools are either not used at all or are not used to their maximum benefit. Many tools in the marketplace today are very powerful, but they must also capture best practices to provide differentiation and move beyond merely being transactional. We continue to see positive progress in this area over time and offer the following to help the trend.

Recommendations related to too much focus on software/solutions, and not enough on best practices:

- Don't be reticent to ask your technology or services provider if there is a better way to do something. You need to use some restraint here, but you can generally tell if you have a clunky process because your people will have told you that they had a better way at a previous company or it is perhaps a point of ongoing struggle for you. Budget sufficient time during implementation for a possible discussion about "have you thought about doing it this way?" as this is often when and how a best practice can be brought to the surface. However, if your timeline is overly aggressive or your project calls for merely getting the solution live based on an initial set of scoping requirements, you may lose this opportunity.
- Check the credentials of the person(s) who are tasked with delivering the best practices. Make sure they have the industry experience and that they will be full-time on the project, not just checking in from time to time.
- Specifically request examples of some best practices that your short list of vendors has been able to provide during other implementations.
- Check references carefully to understand the "additional value add" areas that were brought to bear in past deployments.
- Always recognize that software is not the automatic answer to a problem. Instead, it is the enablement of an underlying business process with appropriate technology that can deliver results. Merely buying some software package and installing it is not the answer, despite all the marketing hype to the contrary.
- Similarly, remember that it takes people to operate software and they have to be engaged and trained over time — as we will see in subsequent sections.

*Many tools in the marketplace today are very powerful, but they must also capture best practices to provide differentiation and move beyond merely being transactional.*

**Implication 3 from the prior Survey and Analysis: User organizations selecting wrong tool for the job.**

| Measures | Change from prior year, and trend | Upshot |
|---|---|---|
| Lack of offline capabilities in Retail Execution solution. | 16 PP worse, reversal of trend | Only 35% of respondents say that their offline needs are met, and 18% only 'somewhat.' This is a difficult area to test for during product demos. Custom build situations even further exacerbate this. Working offline is critical to sharing insights and making decisions at the store level. |
| BYOD option in Retail Execution. | 8 PP worse, reversal of trend | Only 46% say they have it, of which 32% say only 'somewhat.' Vendors often said they could do it but actually for a named set of devices, which explains the 'somewhat' of having BYOD choices. In this case, the 'somewhat' increased by 9 PP from prior year, which indicates the limited set of options. |
| Challenges finding tools that enhance Retail Execution worker productivity. | 5 PP worse, reversal of trend | Correlates to declines in satisfaction with Retail Execution that we will see in the Summary of Implications later on. 81% say they still have challenges here. We believe that this correlates to the lack of asking for best practices that we saw in Implication 2 above. |
| Find it necessary to augment TPx solution functionality with spreadsheets. | 2 PP worse, relatively new question so no multi-year trend | 90% of respondents tell us that this is the case, which is hard to believe in the era of automation. |

Overall, we see serious issues with this section, and in particular how choosing the wrong tool for the job is hurting overall satisfaction with the ability to execute in the marketplace. As a result, we offer these recommendations to avoid user organizations selecting the wrong tool for the job:

- Adopt "no customization" as the rule, rather than assuming a need to customize. There are many solutions available that will map directly to your requirements, either out of the box or with a modicum of configuration through embedded system administration tools.
- Do scripted demos with vendors to see the ease of taking what they are showing you on screen and altering it to be what you believe you need. Either have them make changes on the fly or give them 24 hours to come back with such adaptations. They are not likely to write code in 24 hours so this will show how flexible the existing tool is to meet your needs.

- Broaden your search for trade promotion and Retail Execution tools beyond the tools you are currently using. The large number of companies that are doing customization, have unsuitable offline capabilities, cannot do BYOD, and lack in productivity tools, flies in the face of what we have seen in the marketplace. There are good tools out there that don't require customization and have significant offline capabilities.
- Make your detailed requirements document and RFP response part of the scope of work. When you do so, the solution vendor becomes obligated contractually to deliver on what has been said to be out of the box. This will make them less willing to make verbal promises about functionality that doesn't exist.
- Understand specifically what the capabilities of a Retail Execution tool are relative to offline and complex pricing. Don't get sucked into a joint development or custom build situation. There are solutions out there that can do this and have done so for years.
- Find out what all of those spreadsheets are used for. Use this information to talk to your vendor about whether that functionality is offered in your TPx tool. If it is, begin using it. If not, have an earnest discussion with your vendor about the roadmap. Position spreadsheets as not enabling internal, let alone external collaboration.
- Listen to users more than you listen to IT. Given the number of hosted solutions (they go by names such as "managed services," "cloud," "software as a service," and so forth) we do not believe that IT should have as much of a say as the business. This will keep them from selecting a tool based on existing relationships and vendors that they have simply become comfortable with. At the end of the day, a hosted tool with a service level agreement (SLA) that can provide a stream of data back into existing systems will give users what they need while posing limited IT risk. Hence, user productivity trumps architectural considerations.
- Take BYOD seriously, not just for user delight, but also as a standard if you intend to be active in emerging markets.
- Favor user productivity over command and control. A little of the latter goes a long way. Assume that with proper incentives and productivity tools, your users will want to do their job and do it well without constant monitoring. Otherwise, consider rethinking your approach to hiring.

*Find out what all of those spreadsheets are used for. Use this information to talk to your vendor about whether that functionality is offered in your TPx tool.*

**Implication 4 from the prior Survey and analysis: Change management issues for solution users.**

| Measures | Change from prior year, and trend | Upshot |
|---|---|---|
| Challenges finding qualified personnel to use TPx solutions. | 2 PP better, reversal of trend | Still, 83% of respondents say this is the case. Technology offerings have worked to simplify recent versions, but it takes time. |
| Change management issues among existing TPx users. | 3 PP better, no multi-year trend | 89% of respondents say this is an issue. We don't see any changes in approach or utilization of solutions to manage this, so it is no surprise. In particular, there seems to be a lack of training capabilities and some systems are just difficult to operate. This impacts both internal and external collaboration. |
| Challenges training and supporting new TPx users as they come on board. | 2 PP better, reversal of trend | Encouraging, but 79% of respondents still have these issues here. |
| Challenges getting TPx users to trust what they see in the system. | 2 PP better, continued trend | 88% have this challenge, which has broad implications for solution adoption, particularly for TPO. This has to be overcome as systems expand to do more omnichannel selling, which will have more complexity. |
| Challenges finding qualified personnel to use Retail Execution solutions. | 1 PP better, no multi-year trend | 78% say they have issues, which is disconcerting because we believe that Retail Execution systems are typically less complex than TPx., yet only 5 PP better with respect to this metric. This points to recruiting and training opportunities. Performing transactional functions is important but gleaning insights for internal and external collaboration is mission critical. |
| Change management issues among Retail Execution users. | 2 PP better, reversal of trend | 85% have issues here. We aren't aware that remote technology is widely used to address this. |
| Challenges training and supporting new Retail Execution users as they come on board. | 4 PP better, reversal of trend | 76% of respondents say they have issues in this area. Largely the same set of issues as change management. |

As we previously stated, we see change management as absolutely critical in improving both HQ and store level execution. We have stressed the need for a focus in change management in our written research as well as at industry events. It appears to be paying off across the board, but there is still much to be done in order to get the most value from technology investments, reduce user angst, and improve employee retention. Therefore, we recommend the following related to reducing change management issues for solution users:

- Have a look at the POI publication titled “POI Change Management Best Practices” (poinstitute.com/about/resources) for a more detailed discussion of the “how to” of managing and avoiding issues around change management.
- Look into remote learning capabilities for helping with initial as well as follow up training.
- Take a before/during/after approach with specific steps for each phase.
- Have a visibly supportive, executive level sponsor. A sales application without such a sponsor is like a ship without a rudder, with users left to wonder whether the new solution is really important.
- Keep in mind that the use of incentives to motivate change is only viable in the short term. Lasting change can only take place when people understand the need to change and see the intrinsic value of doing so.
- Don’t skimp on training. Nearing the completion of a sales application project, project managers have a tendency to cut back on training, because it is the last place they can cut in order to bring the project in on time and on budget. However, this is exactly what they shouldn’t do. An experienced change management leader can effectively temper the urge to cut training.
- Even though change has many behavioral aspects, it is still possible and desirable to measure the impact of change through the use of appropriate KPIs.

*We see change management as absolutely critical in improving both HQ and store level execution.*

**Implication 5 from the prior Survey and Analysis:**
**Shortfall in analytical capabilities (both on the people and tool aspects).**

| Measures | Change from prior year, and trend | Upshot |
|---|---|---|
| Challenges moving capabilities from transactional to analytical. | 2 PP better, continued trend | Still, 90% have this challenge. Some of this may also be due to having the wrong tools for the job, which was covered in Implication 3. Insights drive collaboration and differentiate more desirable trading partners. |
| Post event analytics are not automated. | 4 PP worse, reversal of trend | Many companies have done system upgrades, but not yet done so for post event analytics. Still, 63% don't have it. Post event analytics should not be an afterthought. Our research shows that most companies are only able to evaluate the 3 key events at the top 5 customers and that much of the work is manual. This does not pave the way for continuous improvement let alone being able to evaluate personalized offers at the shopper or segment level. |
| Retail Execution solution does not enable field-based users to make appropriate decisions at store level. | 2 PP worse, reversal of trend | There is still too much focus on transactional capabilities. Inability to work offline is also a factor. 54% say they have this potential and, of those, 41% only 'somewhat.' Retailers want to see field people as a valued, collaborative partner. Otherwise they limit access as we have seen above. |
| Retail execution solution does not enable analytical requirements of office-based users. | 4 PP better, continued trend | Similar to field-based users, only 63% have the capabilities and 41% only 'somewhat.' The focus needs to shift to meeting the needs of field users at commensurate levels. Nevertheless, proper tools in the hands of managers drives better coaching and internal collaboration in support of the field. |

Key to moving beyond transactional is having better analytical capabilities. We saw only mixed improvement in this area. Nevertheless, there are still sizeable opportunities. Follow these recommendations related to shortfalls in analytical capabilities (both on the people and tool aspects) to get more actionable insights:

- If you feel your analytics are not up to par, you may want to consider new tools. This may seem drastic, but if it is the only way to improve your ability to execute at the headquarters and store levels, you will likely recuperate the cost of a new deployment through better trade spend, supply chain planning, and winning at the shelf. Furthermore, trying to add a generic BI tool onto your TPM or Retail Execution tool has been done many times, but it is rarely successful, as such tools are not configured for this industry and because users have to toggle back and forth between systems to "understand" in one and "execute" in another. Instead, consider bolt-on, purpose-built analytical capabilities that can be fed directly into the TPx or Retail Execution tools.

- Always get users involved in any technology selection process and specifically task them with continuing to ask "does this tool make me smarter and able to sell more?"
- Recognize that insight is the currency of collaboration. If retailers are executing around you, instead of with you, then you need to up your game. The same goes if they aren't giving you access to their stores because they don't see the value in your being there.
- Think in continuous loops: plan - execute - analyze. Dumping data into spreadsheets is not a viable option because it breaks the loop and adds latency into the process. The same is true for toggling back and forth with a BI tool. Trade promotion management and post event analysis should be as tightly integrated as possible. It is just too cumbersome otherwise.
- Make post event analysis a prerequisite for next year's funding/continued accrual spending. First, put the appropriate tools in place with automation to remove the angst. Then, work to change the culture from "evaluate events if you can" to "evaluate events because you must."

**Implication 6 from the prior Survey and Analysis: User experience (UX) not meeting expectations.**

| Measures | Change from prior year, and trend | Upshot |
|---|---|---|
| Entire TPx process takes a burdensome amount of time. | 1 PP better, no multi-year trend | Perhaps the most sobering result:<br>92% report this issue and it isn't getting better. Field people see it as a something that takes away from more important activities as opposed to a tool that provides insights and improves promotional outcomes. |

This is quite sobering in the age of smart phones which people work/play with continually and seem to actually enjoy. Perhaps it is due to lack of best practices or ergonomics, but there are some clunky solutions out there still 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 of 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.
- Streamlining the overall process. Do you really need weekly forecasts at the SKU level? There are best practices available and service providers to help you along the way. Get help!

- 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.
  - Step-wise or chevron-based navigation.
  - Wizards to help the user through certain processes.
  - Online help screens.

**Implication 7 from the prior Survey and Analysis: Integration issues.**

| Measures | Change from prior year, and trend | Upshot |
|---|---|---|
| Challenges integrating existing TPx solutions to create a cohesive whole. | 1 PP better, continued trend | Still, 84% of respondents say they have issues here. |
| TPx not integrated to Retail Execution (question posed to those who are involved with TPx systems). | 1 PP better, reversal of trend | Best-of-breed RE solutions are most popular and have to be integrated manually. This accounts for only 15% that have them fully integrated. This causes latency in field execution and difficulty closing the loop back to account managers on in-store conditions. |
| TPx not integrated to Retail Execution (question posed to those who are involved with Retail Execution systems). | 1 PP better, continued trend | Difference group of respondents because we don’t believe that many respondents launched new TPx solutions. Still, 85% don’t have it fully automated. |
| Challenges having quality execution and visibility when working through third-parties like brokers. | 7 PP worse, no multi-year trend | Since brokers have proprietary systems that they offer as part of their service, there is a data integration issue required to get a holistic view of the market. 93% still have this problem. And, in many cases, they use multiple brokers across various markets, channels, or product categories. This substantially impedes the generation of insights and ability to collaborate both internally and externally around issues and opportunities. |

Integration is still a big opportunity because of piecemeal purchasing decisions and difficulty in assessing beforehand what will be required to do integration. Follow these recommendations to continue to build upon successes related to integration issues:

- Before purchasing a TPx or Retail Execution solution, look for a "proven" ability to integrate. This means asking for reference customers with the same brands and release versions as the solutions you will want to integrate into.
- Specifically outline your data sources, including any that you might add in the near future, and request reference situations of other instances where CG companies have integrated these sources.
- Look for companies similar to yours in terms of number of products, categories, geographic dispersion, and customer hierarchies (distributors, direct/indirect customers) and other channels such as food service.
- Map out your various solutions and where interfacing will have to be done. Allocate sufficient time and resources to do so while recognizing that much of your future analytical abilities will depend on your ability to combine data where users are making decisions.
- Always keep in mind that there is a huge difference between "we can integrate..." and "we have done it multiple times with environments similar to yours."

**Implication 8 from the prior Survey and Analysis: Lack of future focus among CG companies.**

| Measures | Change from prior year | Upshot |
|---|---|---|
| Challenges selling profitably to Walmart. | 6 PP worse, reversal of trend | Still 68% say they have issues here, which reflects efforts by Walmart in late 2016 and into 2017 to focus on its margins. |
| Concerns about doing business with Amazon. | 14 PP worse, continued trend | This is a huge shift from the prior year and reflects how Amazon has gotten into retailing and penetrated more categories. The 82% that have issues here versus the 68% for Walmart does not bode well. On the one hand, it is good that it is finally seen as the threat that it is, but as we will discuss later on, having an e-commerce strategy and being able to link digital and trade promotions are critical. |
| Having TPO to determine promotional outcomes. | 9 PP better, continued trend | This is a game changer for getting collaboration and buy-in. 59% still do not have these capabilities. Change management is critical to success as predictive modeling is widely understood among users. |

| | | |
|---|---|---|
| Advanced Retail Execution capabilities:<br>• Image recognition | 9 PP better, no multi-year trend | Cost and speed are said to be key issues, which accounts for the 69% who don't have it and have no plans to do so. |
| • Gamification | 14 PP better, continued trend | Consistent with the momentum we are seeing. 62% still don't have, or plan to do it though. We still see it as a huge benefit to getting user involved and motivated. |
| • Retail activity optimization | 4 PP worse, reversal of trend | As a tighter definition for what this actually entails has become more prevalent, some organizations have recognized that they don't actually have it. Nevertheless, an incremental 9 PP say that it is a planned enhancement, while 51% have neither capabilities nor plans. |
| • Social selling capabilities | 10 PP worse, reversal of trend | Relatively easy to add to existing solutions. Nevertheless, 76% don't have it or plans for it. |
| • Guided selling | 3 PP better, continued trend | This has the potential to reverse the trend in Implication 5 regarding the ability to make decisions at the store level, provided the data is available. Nevertheless, 63% don't have it or any plans for it. |
| • Augmented reality | No change | There is a 3 PP increase in those who have this as a planned enhancement, but 75% still don't have it or any plans for it. |
| • Crowd sourcing | 4 PP better, no multi-year trend | 68% still don't have it or any plans for it. |
| Challenges building a business case to deepen TPx investment. | No change | Perhaps the summation of many other negative trends above, plus the reliance on spreadsheets. 67% of respondents still state that this is an issue. |

Despite the increased threat from the retail and 'e-tail' leaders, it doesn't always translate into building a business case. Nevertheless, the trend towards bolstering some of the embedded capabilities within Retail Execution has the potential to improve outcomes and store access. Avoid getting complacent by considering these future-focused recommendations:

- Take a realistic view of Walmart. In some cases that means working with more collaborative retailers that offer promotions and a shopping experience. It also means finding ways to improve product availability. If you can't really promote at the shelf as a result of declines in product availability at Walmart, you must focus on at least being present at the shelf. But you have to reduce reliance on Walmart to cover your fixed operations at the plant and work with other players that will share data, have growth potential, and will perform for their dollars.
- Amazon continues to develop as a threat. Keep in mind that, as it increases home delivery of more grocery categories, it will put immense pressure on traditional retailers, who will increase their reliance on trade spending and allowances to survive. As Amazon invests in more brick and mortar to do home delivery, there are more opportunities to collaborate with retailers to leverage existing brick and mortar to provide both convenience and shopping experience, depending on the context. Collaboration is key.

- Have a plan for TPO. Take steps to get ready by improving the quality of the data that will be used to fuel the predictive models, experimenting with modeling, achieving greater mastery of the more basic parts of the promotion cycle like post event analysis, and increasing user adoption by improving the user experience.
- Continue to push Retail Execution capabilities beyond transactional. Consider how image recognition, gamification, retail activity optimization, embedded social capabilities, and guided selling can be added to your arsenal to improve outcomes at the store level. This may include having frank talks with your vendor to get it on the road map, but that is a big component of the software development process.
- Begin experimenting with next-generation promotional capabilities like personalized offers that create loyalty and a shopping experience as a means of combating low price and speedy delivery.

**In Summary: Overall level of satisfaction with TPx and Retail Execution.**

| Measures | Change from prior year | Upshot |
|---|---|---|
| Satisfied with ability to manage promotions. | 2 PP better, reversal of trend | After much focus, the results are improving. Still, 46% say they are ‘dissatisfied’ and 40% say they are only ‘somewhat satisfied,’ so there is much opportunity as outlined in the more granular metrics above. |
| Satisfied with ability to execute at the store level. | 3 PP worse, continued trend | Also, of the 60% that expressed some level of satisfaction, 44% were only ‘somewhat satisfied,’ which does not correlate to very strong sense of getting things done well at retail. However, given large declines in best practice delivery, offline capabilities, a BYOD offering, worker productivity tools, and broker data integration, we can build a bridge to how this metric has declined. |

Despite some pockets of improvement, the harshest critics, the consumer goods companies themselves, aren’t meeting their own expectations. But rather than pile on any criticism, we offer these words of encouragement by way of recommendations:

- Focus on the size of the prize. Any improvements you make in trade promotion or retail execution will bring substantial returns.
- Spend more time with your users both for change management as well as figuring out and prioritizing what needs to be improved.
- Situations like ineffective promotions didn’t just creep up overnight. Similarly, the remedy is complex and takes time. The key is to measure, set goals, and make steady improvement.
- Prioritize functionality over how the technology is delivered. We will provide more on that in the next section, but we believe that some of the declines in UX and offline capabilities stem from the perception that everything needs to be moved to the cloud, which does not favor the development cycle on existing platforms.

- The marketplace is strong today. Share prices are up and we are seeing more investment in the current quarter than any previous one in the last 5 years.
- There are some really smart and talented people out there who can help you, both from solutions and services providers. You simply have to work with them in the right context based on some of the recommendations above. And, you need to reject the notion that technology is going to be a quick fix, because in our experience it rarely is.

## Section 2: New Findings

As part of the research process, POI is constantly testing hypotheses and looking for new data points that may indicate trends or provide deeper insights. In the 2017/2018 survey we asked some additional questions in order to do just that. We now present the results in four categories based on the topic areas that we believe will be of most interest to you. They are: aligning digital and traditional promotion, the state of e-commerce, cloud hype versus cloud reality, and the dawning of artificial intelligence.

### New Finding: Aligning Digital and Traditional Promotion.

In last year's report we noted that most companies believe that they are behind their peers "at the intersection of digital promotion." This is still the case, although the perception has changed slightly. We present this data again to show how it has changed and, more importantly, to set the stage for a deeper dive into how CG companies are actually evolving.

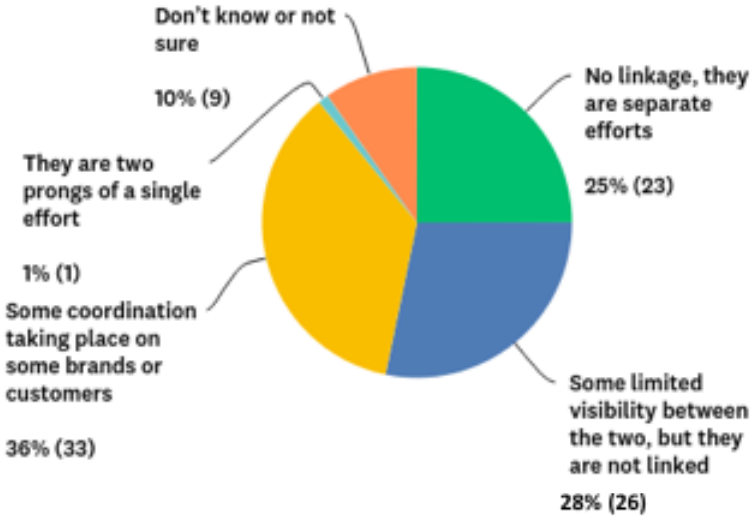
**Chart 1. Historical answers to the question: "Based on your definition of digital marketing and how you perceive the market, how would you rate your capabilities at the intersection of digital and trade promotion?"**

| Response | % of Respondents 2018 | % of Respondents 2017 | PP Change |
|---|---|---|---|
| Lagging | 51 | 58 | (7) PP |
| On par | 34 | 25 | 9 PP |
| Leading | 4 | 3 | 1 PP |
| Not sure | 11 | 14 | (3) PP |

What continues to stand out from the data is that it is by no means a normal distribution. One would expect 'on par' to be the center of the bell curve with a lot more leaders. However, it is very lopsided because respondents have the perception that their competitors are far ahead of them. We do not believe this to be the case. We are encouraged that the perception is improving. We will continue to have content at our POI events to help you with benchmarking and accelerated evolution.

With that said, we now move to the additional findings from the recent survey. Here we were looking for a more qualitative sense for where these respondents are. The results are as follow:

**Chart 2. Responses to the question: "How would you characterize your current linkage between digital promotions and traditional trade promotions?"**




*We believe that personalized promotions offer so much potential as a way to understand shoppers/consumers, get manufactures/retailers collaborating in efforts to reach them, reduce the number of unprofitable promotions ...*

Obviously, what we want to see is that they are two prongs of a single effort. However, we are encouraged that there is some linkage and that coordination is taking place with some brands and customers. This accounts for better than half of the responses so it represents solid progress. What is particularly telling is what the 25% with no linkage reveals beyond what outwardly appears in their responses. The fact that they are separate efforts indicates they are executing both types of promotions, as opposed to saying that they only do one kind of promotion or the other. This is very telling and indicates the potential number of competitors that you can possibly leave in the dust as you move to visibility, partial, and then complete linkage. We won't do significant analysis of the 10% percent that 'don't know,' but we do assume that if the average employee doesn't know about a major initiative such as this, there is a good possibility that nothing is happening. That means the size of the prize is about a third of the market, as 'don't know' plus 'no linkage' equals 35%.

We will continue to monitor developments and facilitate learning/networking at our POI events in the future to help you drive better linkage. This is critical because we believe that personalized promotions offer so much potential as a way to understand shoppers/consumers, get manufactures/retailers collaborating in efforts to reach them, reduce the number of unprofitable promotions, create a defensive bulwark against e-commerce sales options like Amazon, and generate better results. Read more about personalized offers here: poinstitute.com/wp-content/uploads/2017/03/PrecimaWhitePaper-FINAL.pdf

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

- If you don't have linkage between the two, recognize that doing so will provide substantial competitive differentiation because there are very few leaders today.
- Have a plan for digital promotion. Don't just seek to acquire some capabilities, but have an overall plan. The number of respondents that said they need a tool or service may be an indicator that they are looking for a point solution. We suspect that the number of companies that have a true digital strategy is much lower than we would be lead to believe based on the less than 5 that actually said they lack a strategy.
- In particular, look at personalized offers as the evolution of trade promotion and linkage point for promotional efforts. We believe it will play a large role in the future of promotions.
- 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. Call us and we will guide you and help you to secure the appropriate resources.
- 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.
- Prioritize the linking of the two promotional approaches as highly as you prioritize digital itself. This linkage is critical. Shoppers expect that offers made by you will have some linkage so that they feel they are being treated fairly across all channels.

## New Findings: E-commerce Strategy and Capabilities

Not only are there more respondents concerned about Amazon at 82%, but the 'strength' of the concern is 8 percentage points greater as we have defined it in our survey. Some of this may be due to increased fear of a future unknown condition with Amazon, or the positioning of the question (making a profit versus general concerns), but the perceived threat is very real. The same can be said for Taobao or Alibaba; so when we refer to Amazon we are talking to mega e-commerce players as a whole because we expect this incursion to continue into the foreseeable future. Amazon can exert tremendous pricing pressure, does not share sales data, and does not care about the supply chain dynamics of where product actually gets sold. The list goes on and on. Most important is that Amazon doesn't want to partner with you, it wants to procure from you, nothing more. As it moves to selling more of the "center store" items in a grocery store, it has the power to turn many of those retailers unprofitable. In 2017 we have already seen more retail store closures than any previous year, including 2008. This will put more profitability pressure on retailers, who will in turn seek to bolster their margins by selling you data, seeking more trade spending, and so forth.

Bottom Line: Most CG manufacturers are concerned about Amazon and the other e-commerce giants — and justifiably so. We at POI have been speaking about the threat of Amazon for many years. Response has been slow. There are few categories that will not be impacted by Amazon. Being in the ice cream or other frozen food business finally, actually has some advantages when it comes to e-commerce. But the rest of the categories should be concerned- very concerned — and give heed to some of the counsel that follows.

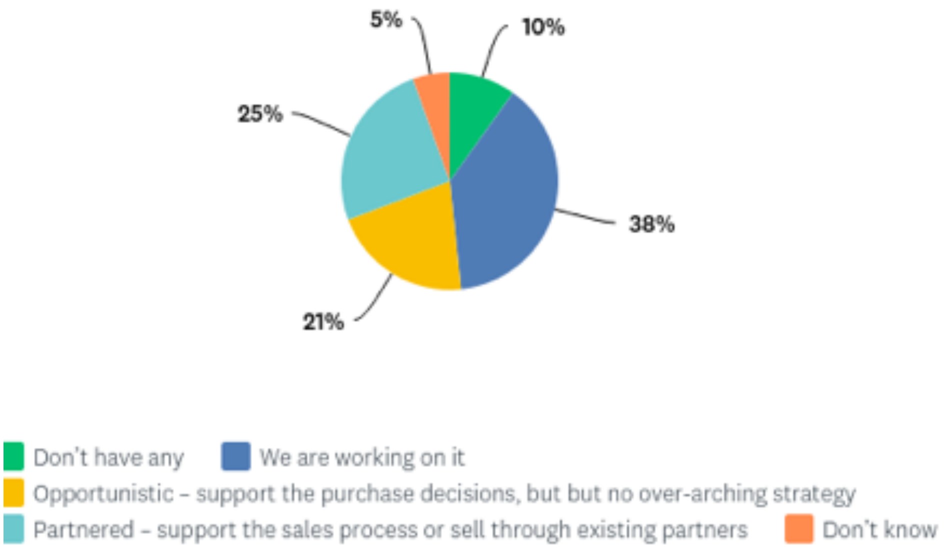
You need an E-commerce strategy.

We need to establish early on that we are not suggesting that you can or should sell the bulk of your products online. Instead, what we are advocating is that you have a strategy for the when and where of e-commerce making sense. What we find is that a balanced approach is best, but that it really depends on the product category. Nevertheless, the majority of CG companies don't have a strategy as we found in the following survey data.

Furthermore, what we consistently see through research and interactions with CG companies globally is that they have e-commerce initiatives, but not necessarily an e-commerce strategy. Our definition of e-commerce isn't limited to selling products online. It could also be: supporting products through information, partnering with retailers to make offers, driving shoppers to retail outlets where they can purchase products, or making offers to shoppers directly through coupons.

When we asked our panel of 95 survey respondents about e-commerce we received the following responses:

**Chart 3. Responses to the question: "How would you describe your current e-commerce capabilities?"**




We find the data to be very telling because we have not seen this kind of feedback from the market previously. Basically half of respondents don't have anything assuming 'working on it' likely means there have not seen capabilities brought to bear. The 22% that are opportunistically supporting purchases often lack a strategy. We still see marketers creating a website for a product to get consumer engagement, but it is a tactic more than a strategy. There is often a group of e-channel people within the enterprise who are pretty much working in isolation to try to generate buzz and interaction around products. This causes confusion among consumers when pricing and product positioning are different from what they see at a retailer.

We recognize that evaluating e-commerce and even launching into it with current resources is a real challenge. Everybody within your organization is quite busy and likely not able to take on a part-time job. The good news is that there are external resources available to you. They have experience in this space so they can accelerate your development of a plan. Reach out to us and we will recommend some options based on where you do business and what you are looking to do.

Looking back at the chart we see that only 25% of companies really have capabilities. We cannot ascertain how many of these have an actual strategy or are just looking to drive some volume through Amazon or Alibaba, but at least they have capabilities. This points to how large and open this opportunity is for judiciously working with the e-commerce players. We hope you can make money at it if you choose to do so. However, there are some things you will need to put in place. Specifically, you need to address Amazon-specific requirements such as product labeling and electronic data interchange (EDI) to avoid fines and loss of profitability.

*You need an e-commerce strategy. Get some help if you are still stuck in the "working on it" mode like the rest of the 38%.*

We believe that some of the angst associated with selling to Amazon includes fines paid for non-compliance. Hopefully you are already working on this. We are working to offer best practices in this area. To that end, we are convening an "Amazon Preparedness Panel" at the POI Spring Summit in Chicago from April 11-13, 2018. This will be the basis for networking and sharing information on how to deal with Amazon. If you are interested, see our contact information at the end of the report.

E-commerce can be a boon to your go-to-market efforts so long as you do so with a strategy and keep these 5 key recommendations in mind:

1. You should likely be concerned about Amazon and other e-commerce titans, depending on your product category and distribution. Most CG companies are more concerned about Amazon or Alibaba than about Walmart or other dominant retailers–and rightly so.
2. You need an e-commerce strategy. Get some help if you are still stuck in the "working on it" mode like the rest of the 38%. Call us. We can help you, or assist in finding resources.
3. Consider e-commerce in the wake of what we said previously about digital promotion as the two need to work together. This is why we addressed digital promotion in the previous section.
4. Specifically, you need to start moving towards personalized promotions.
5. You need to address Amazon-specific requirements such as product labeling and electronic data interchange (EDI) to avoid fines and loss of profitability.

## New Findings: Cloud Hype versus Cloud Reality

We continue to believe that the cloud is the future of computing. It is just a matter of when it will happen. 5 years ago, CG companies were worried about security in the cloud. They have since gotten over that — and rightly so. But once they did, there was an initial rush to do things in the cloud. IT organizations embraced it and wanted to promulgate it as a strategy. However, in that rush there were many things that got left out in terms of functionality. For one thing, we saw vendors trying to get into the TPM space for anything from planning to post event analytics that just didn't have industry expertise. Several technology vendors rushed in and tried to sell solutions, but failed. It was even worse in Retail Execution, where the barriers to entry are relatively low. We have seen even more vendors try to enter that space. Some of these we followed for a time, but realized that they had no staying power. The sales cycles are too long and they didn't get traction because they lacked product attributes and often didn't have anybody with industry credibility.

At the same time, some vendors with all the right experience and credentials have launched cloud-based applications, but they often did so prematurely and lacked a critical mass of industry functionality. The result was that they lost some credibility and perhaps confused the market with their 'cloud for cloud's sake' approach. Some found a bit of success by pitching joint development, but much of that was with IT folks and it never got traction with the business. The result has been that we are actually seeing decreased interest in the cloud. First, let's look at survey results for TPx (basically the entire stack) and then for TPO/advanced analytics in isolation, as it is much more on trend and usually represents a future purchase. The results are as follow:

**Chart 4. Answers to the question: "What is your preferred means of providing TPx technology?"**

| Response | % of Respondents 2018 | % of Respondents 2017 | PP Change |
|---|---|---|---|
| On-premises (behind your firewall) | 36 | 32 | 4 PP |
| Public cloud | 7 | 3 | 4 PP |
| Private cloud | 24 | 32 | (8) PP |
| Some combination depending on geography | 11 | 17 | (5) PP |
| No preference | 22 | 16 | 5 PP |

It is interesting how 'on-premises' and 'no preference' account for all of the decline in private cloud. Similarly, cloud as a total entity declined by 4 PP, which is the amount of increase in mentions by on-premises. We don't really understand the nuances between preferences of public versus private cloud except for who is managing the solution within a public cloud. It is really a matter of where a vendor chooses to host its solution(s). Ostensibly you would expect that the trend towards outsourcing more and more of IT would make sense and they would want to do it in a public cloud where they don't have to mess with it. However, Microsoft has both private and public. Amazon has the ability to provision a private cloud within its public offering. But it doesn't really matter because on-premises is still the big winner. And, this isn't just a wish on the part of respondents, we have seen several large on-premises TPx deals in recent months. Ironically, they have been primarily with very large CG companies.

Just to make sure this isn't a blip that will correct next year, let's look at similar data for a more sophisticated set of capabilities. In this case we have asked the question in a slightly different way so as to not bias the respondent with technical terms.

**Chart 5. Answers to the question: "How do you prefer to obtain TPO/advanced analytics capabilities?"**

| Response | % of Respondents 2018 | % of Respondents 2017 | PP Change |
|---|---|---|---|
| As a service (rent it) | 22 | 22 | - |
| As a solution (own it) | 24 | 37 | (13) PP |
| Hybrid offering (both) | 28 | 24 | (8) PP |
| No preference | 14 | 6 | (5) PP |
| Not sure/not ready to decide | 12 | 11 | 5 PP |

This does validate on-premises as the most popular single option. Clearly, having the flexibility to do it both ways is very viable. But the most important thing that this validates is that the services model is less preferred — even for advanced capabilities — than others and that there is no clear winner.

Now turning our attention to how respondents want to receive Retail Execution solutions we see the following:

**Chart 6. Answers to the question: "What is your preferred means of providing Retail Execution technology?"**

| Response | % of Respondents 2018 | % of Respondents 2017 | PP Change |
|---|---|---|---|
| On-premises (behind your firewall) | 20 | 29 | (9) PP |
| Public cloud | 5 | 5 | - |
| Private cloud | 19 | 24 | (5) PP |
| Some combination de-pending on geography | 16 | 17 | (1) PP |
| No preference | 40 | 25 | 15 PP |

Clearly there are some changes year-over-year, but what we take away is that:

1. On-premises is still highly viable.
2. Companies don't have a strong preference for cloud, despite all the hype to the contrary to whether it is public or private.
3. There is largely no preference for any single way of delivering technology.

Based on these new findings in technology delivery and the cloud, we summarize with the following recommendations:

- Don't assume that everybody prefers or is purchasing cloud solutions because it is not the case. Do what is right for your organization today and over the next four or so years.
- Strongly resist the urge to customize any solution that would take your instance out of the upgrade path. Precious POI survey data found that nearly a quarter of respondents actually seek to customize (as in writing custom code). We advise against this because we rarely find a CG company with truly unique requirements that cannot be met by one or more of the mature TPx of Retail Execution offerings in the marketplace today.
- Make sure that functionality trumps delivery method whether for TPM, TPO, or Retail Execution. Don't get sucked in by "cloud hype" at the expense of the functionality you need. Otherwise, you are back to spreadsheets. We recognize that the cloud will play a huge role in the future of technology, but buying an immature TPx or Retail Execution solution primarily because it is cloud-based is a really bad idea.
- Don't necessarily believe that cloud is less expensive. The driver behind hosted solutions was intended to drive down cost. We do not see significant differentials. In fact, it is very hard to do much comparing because the various offerings have many different services baked in. If you have existing server capacity and personnel to manage an application then you might actually be ahead to take it on premises.
- If you are a multinational company you are well served to look at vendors that are able to deliver their technology in various ways around the globe, based on local requirements and preferences.

## New Findings: The Dawning of Artificial Intelligence

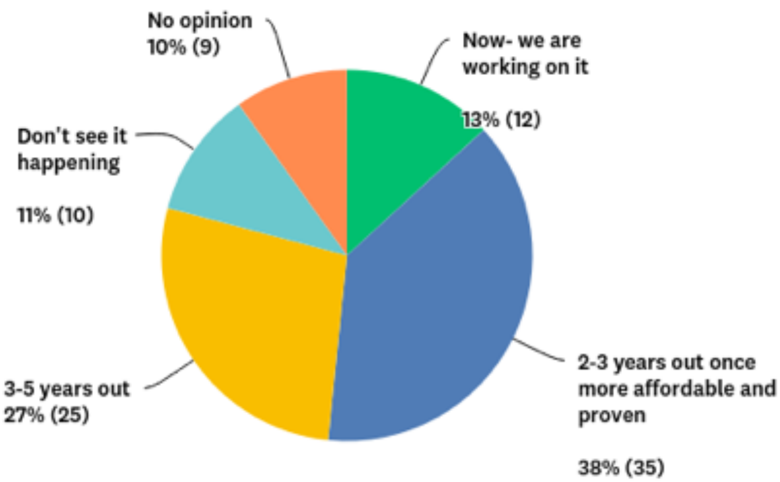
Right away we need to provide a definition of AI to avoid confusion. We aren't talking about robots or cyborgs taking over your workspace and making you redundant. What we are talking about is a set of capabilities that help you be smarter by:

- Looking at data, spotting patterns or relationships, and answering questions that you haven't thought to ask. Example: "Did you know that 5 days before the local sports team has a game there is a spike in the purchase of these products? It only happens in these two metro areas, but there is a significant correlation."
- Learning about the kinds of questions you are asking and anticipating them with answers. Example: "You always start your Thursday morning by querying any uncleared trade deductions. Would you like me to have those already rounded up and waiting for you?"
- Being more predictive about anything for which you currently have historical data. Example: "How much more could I earn in sales commissions next week if I were to spend one more hour each day visiting stores in my territory?"

- Evaluating how you are working a system and recommending ways to configure it for you on the fly to make it more ergonomic. Example: "You consistently do X followed by Y. Would you like me to change the flow of the system and its chevron navigation to accommodate a smoother click-through?"
- Advanced logic tied to voice recognition to literally make queries instead if drilling into a system. Example: "How do sales revenues for December 2017 compare to prior year for X, Y, and Z soup brands in my canned soup category?"

Since we are big believers in the power of AI to take analytics to the next level, we thought it appropriate to ask our panel of CG industry practitioners for their perspective as it relates to TPx and Retail Execution. Here is what we found:

**Chart 7. Responses to the question: "When do you see the role of artificial intelligence (AI) starting in the promotion cycle? By this, we mean the ability of a tool to learn over time, recognize patterns that humans cannot, and predict outcomes based on direction that you give to it."**




Right away we see that 13% are already working on it. You may have heard people talking about "machine learning," "advanced analytics," or "pattern recognition" in your organization. These may be proxies for AI, depending on how they are used. Thus, AI may be happening in your organization already. It certainly has a following.

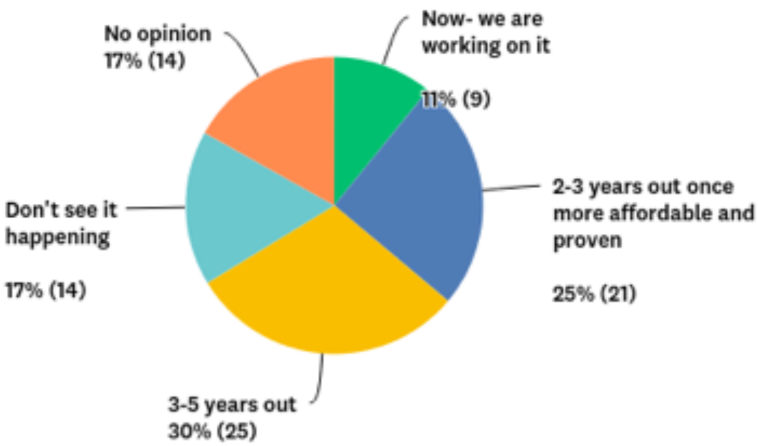
Next, we see the 38% that recognize the value but don't want to bleed on the cutting edge of that technology until it is affordable. This is very typical for CG companies of all sizes. We see it all the time. You need look no further than the advanced Retail Execution capabilities we highlighted in Implication 8 to see how steadily adoption is taking place — and over several years.

Those who see it happening 3-5 years out may be speaking to their own organizations, not the broader market. This is also a viable answer because we can see many categories and tiers of CG companies waiting and watching for that long. We still see companies that have not adopted a server-based TPM solution because they prefer spreadsheets, so this will definitely happen as it relates to AI.

What we hope to do by showing this information is to quell those critics who believe it will never happen. As there are more working on it TODAY than believe it won't happen, we hope they will reconsider. In 1978 (has it really been 40 years?) if we asked people if their car at some point in the future would have the capability to calculate miles per gallon, how many more miles before the current tank is empty, and suggest fueling stations in the next few miles, they probably would have scoffed. Certainly, back in 1978 it was exciting to "live and die" by the fuel gauge needle when we were physically able to push our car to the next fueling station, but certainly there is a better way to do things.

We now turn our attention to the same data for Retail Execution:

**Chart 8. Responses to the question: "When do you see the role of artificial intelligence (AI) starting to impact in-store execution? By this, we mean the ability of a tool to learn over time, recognize patterns that humans cannot, and provide insights or direction to field personnel and those who support them?"**




Clearly our respondents are a bit more optimistic about AI as it relates to the promotion cycle than Retail Execution. AI would certainly lend itself to a more complex set of analyses and business processes. However, when it comes to getting started on it, there isn't much difference. We actually know of as many Retail Execution vendors who are working on AI as we do for TPx. What's more, the capabilities can be applied equally to both set of processes once they are fully baked. Therefore, we see it happening nearly concurrently. Add to this what we showed above in this report about the need for increased worker productivity and better decision-making at the store level, plus declining satisfaction with the ability to execute at the store level, and it may compel CG companies to do more to intelligently enable Retail Execution. We certainly hope so. We also hope they will realize how important it is to be able to work offline. This is precisely why we keep talking about it. If AI capabilities depend on being able to take direction from a remote server, then there are just too many places where the bandwidth is spotty or it will be too expensive to push all that data around.

Nevertheless, we are proponents of AI and look forward to showing actual case studies of how AI can help us to do more, know more, and enjoy more about what we do relative to promoting and distributing consumer goods. In the meantime, we offer the following recommendations as it relates to AI:

- Don't take your eye off this set of capabilities. At the same time, if you previously doubted it will ever happen, you might want to reconsider.
- Help to evangelize AI within your organization. Feel free to use our definition as outlined above to help your people recognize that it doesn't mean you will see Arnold Schwarzenegger roaming the halls of your building as The Terminator. Instead, it is a set of capabilities designed to help you focus on higher order things and be better informed.
- Have a conversation with your TPx, or Retail Execution or analytics vendor as to what their roadmap looks like for AI. Since they are probably planning several years out, you want to get them started on AI consistent with when think you will be ready for it.
- Find like-minded people at user conferences and industry events. Band together with them to influence your vendor's roadmap. This is particularly true if you are relatively small. Band together with the big companies because they have greater influence on product development.
- Recognize that AI needs data. It isn't omniscient. You need to focus on acquiring, cleansing, harmonizing, and staging the data so that you can pull meaning out of it through AI. The same can be said for TPO, guided selling, retail activity optimization, and some other capabilities. They all rely on several years of good quality data. If your data is a mess you should give this a high priority. There are several ways to do so. Here we have written about an outsourced approach to getting the data you need to help in the promotional cycle: poinstitute.com/wp-content/uploads/2017/02/RetailVelocityPOIWhitepostgraphics.pdf

## Final Comments:

We see many opportunities to improve the promotion and distribution of consumer products, both on a relative basis as well as by looking at changes year over year. We hope that consumer goods companies will take stock in the fact that many of their struggles are shared by both peers and competitors. But ultimately, we sincerely hope that identifying these opportunities and prioritizing what is necessary as part of strategic and tactical planning will yield ever-improving benefits.

We thank the many people who have taken the time to complete our survey for these past three years, and in particular the 95 individuals who participated in this most recent survey. If you would like to participate in the next survey, including the ability to discuss the results, please reach out to dhagemeyer@p-o-i.org.

PROMOTION OPTIMIZATION INSTITUTE

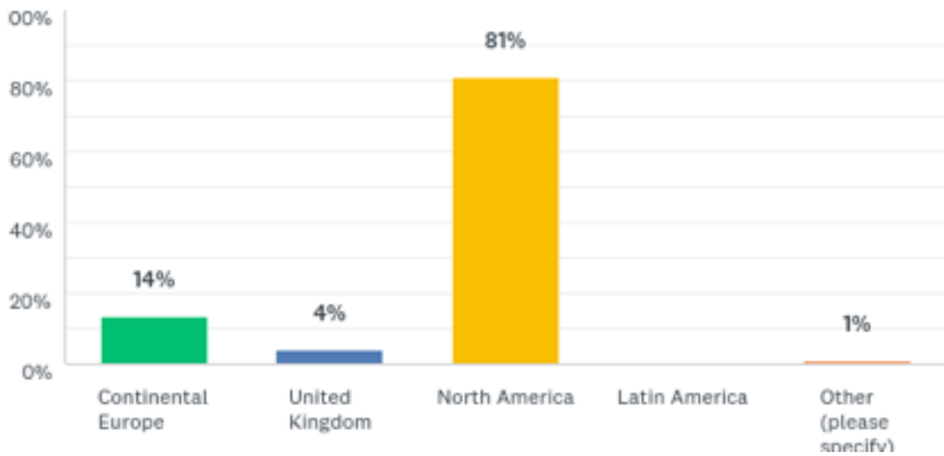
## Appendix: Survey Methodology

Section 1 represents a multi-year look at the data, which is known as a longitudinal study. It isn't perfect because respondents move around or sometimes aren't able to take the survey in subsequent periods. Nevertheless, this actually provides a richer look at the market because across the three years included in this study we have been able to:

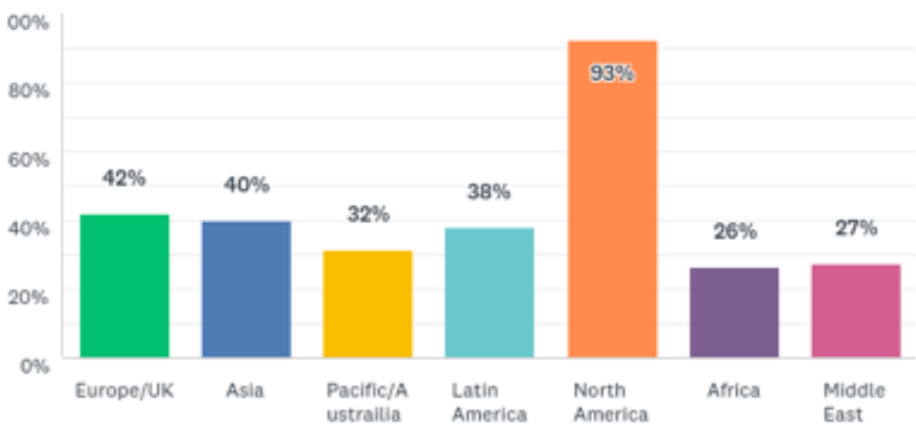
- Engage with several dozen people who are at the same companies as when they took the 2015/2016 survey. This is one element of the longitudinal analysis.
- Continue to track progress at 42 of the same companies that took the 2015/2016 survey. This gives us company continuity over time.
- Bring in 26 new companies this year to lend a perspective to what we found last year. In some cases the results are quite similar, and in others there were the beginnings of a trend. But the fact that a total of 141 unique consumer goods companies took the survey in one year or the other brings more validity to the results.

Finally, here are some of the descriptive statistics about the study and participants:

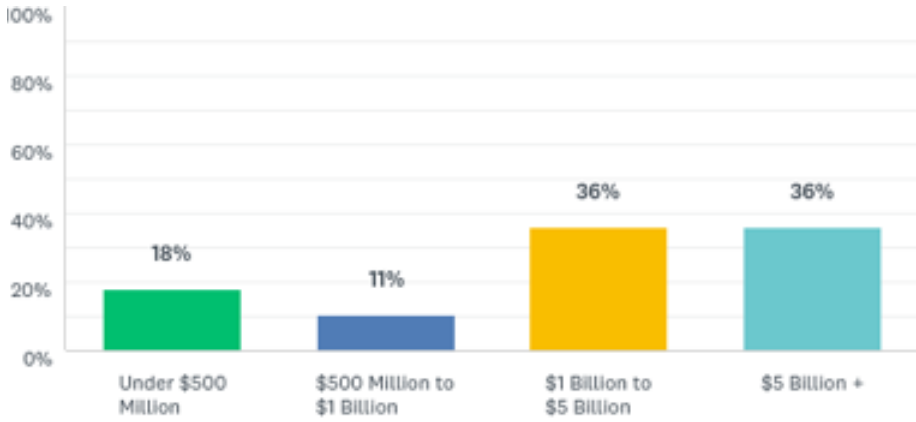
**Location of Corporate HQ.**



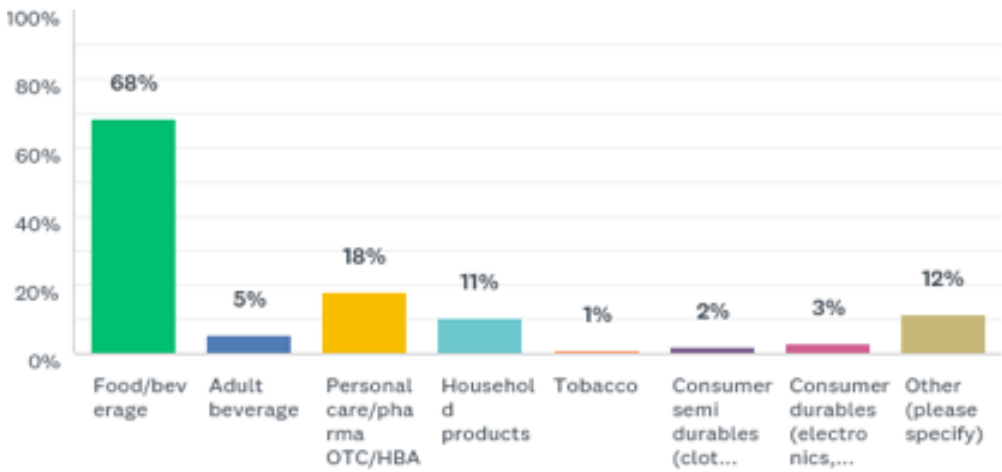

**Regions where respondent companies operate (choose all that apply).**



Annual revenue.




Categories of product offerings.



## 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.

**For more information:**

Visit poinstitute.com

or contact

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