PROMOTION OPTIMIZATION INSTITUTE

POI FOCAL POINT. THE THIRD IN A SIX PART SERIES:

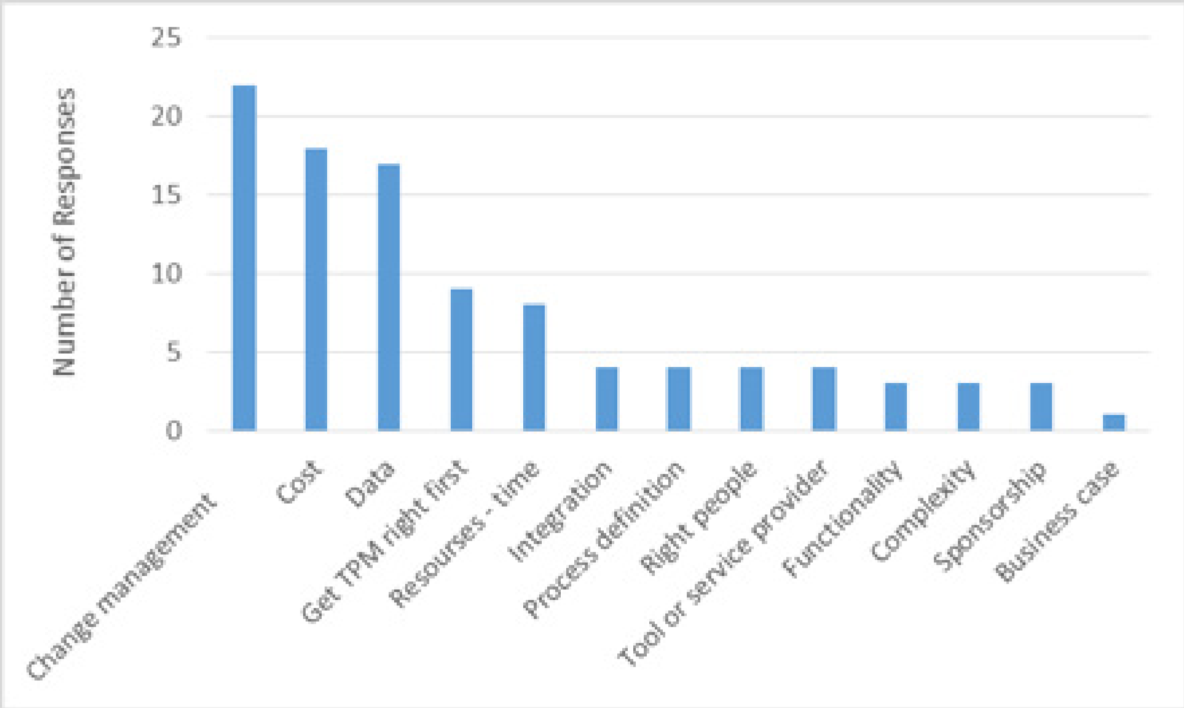
Overcoming the biggest hurdles in moving from TPM to TPO: It’s not all about the technology!

Introduction

We at the POI are big believers that the ability to predict the outcome of a promotion, or series of them, is a serious rallying point for manufacturer/retailer collaboration. Ultimately, it is the means of getting buy-in from retailers that will stem increases in trade spend, reduce promotional non-compliance, and lead to better business results for both parties.

However, being able to optimize a promotion is not just about having a predictive solution. There is much more to it than that. We must point out that the POI 2017 TPx and Retail Execution Survey found that 67% of respondents have no ability to simulate promotional outcomes. Thus, it is still a very worthwhile aim and can yield competitive advantage for those who can do so.

As part of our survey we asked what is keeping these companies from obtaining these capabilities. This yielded the following results:



Let's address the top 5 issues from the chart because they are obviously the most prominent as evidenced by the number of responses.

Change Management

Clearly there are real change management issues associated with making the change from planning and budgeting to simulation. In the same survey we dug more deeply into various aspects of change management. Here is a breakdown of what we found:

- **Change management difficulty deploying to existing users –** 92% of survey respondents have trouble when deploying TPx solutions to existing users. So even If you already have a TPM solution in place you will likely find it to be difficult without a change management plan. Your HR department or service partner can help in this regard.
- **Change management difficulty when onboarding new users –** This is slightly easier than 'teaching new tricks to old dogs', but it is still not easy. 81% of survey respondents have difficulty deploying to new users as they come on board. This is likely because even though they are new to their position or new to the company, they find it burdensome. Again, we recommend that you have a change management plan.
- **Difficulty finding the right people -** Some 84% of survey respondents said that they have difficulty finding the right people who can operate their systems and interpret the results. This clearly indicates a need for new approaches to candidate selection as well as change management.
- **Issues with trust in systems –** Our survey data shows that 90% of respondents find that users have some issues trusting numbers or other aspects of what they see in trade management systems. Again, this is something that can be addressed through change management, but also has to be earned by making sure that data is scrubbed extra well during the initial roll-outs, and that users are helped to understand how calculations are made.
- **Burdensome user experience –** The survey data also demonstrated that 93% of respondents said their users see trade management systems as requiring "a burdensome amount of time" to manage the entire process. This question was positioned in the context of basic trade promotion, or TPM systems. We believe that when you add the optimization function to one that already may be taxing to plan, execute, settle, and evaluate, it can be even more straw on the back of the proverbial camel. Key ways to mitigate this include reducing command and control functionality that is more about oversight than adding value, asking why you do things in the first place like weekly forecasting by SKU, and considering upgrades that will enhance usability.

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Cost

The survey data also gave us some insight on one element of cost. Clearly what is expensive or not is in the eye of the beholder. However, we found that 68% of respondents said that they have difficulties building a business case for investment to move from TPM to TPO. We believe that the key reasons that business cases flounder have to do with:

1. Not measuring KPIs before launching existing trade management capabilities. Since there is no baseline, there is no way to know what existing investments have yielded. Thus, senior management asks why it should invest more money into something where the returns are mysterious.
2. Unwillingness or lack of desire to do controlled experimentation. Simply managing some brands or customers through a system and comparing results with those where the system is not utilized over a business cycle or two can show results that can be meaningfully extrapolated. We at the POI consistently get asked what sorts of returns can be expected for investing in various types of systems. We always stress that results will vary widely based on geography, product category, level of trade spend, and so forth. We recommend experimentation, but find that less than 10% of the time this recommendation is acted upon. We believe is largely due to the discipline required to perform the experiment. Either they just go ahead with the deployment stating that it a business imperative, or they continue to grouse about their inability to build a business case.
3. They are built by those who have a vested interested in the solution and are not vetted properly with an organization like finance that tends to have experience and credibility when it comes to evaluating such things.

We acknowledge that cost of a TPO solution has gone down over time and we expect that it will continue to do so. Certainly there is a price point at which TPO investment, given a well thought out business case, will get a green light. However, we also point out that given industry-wide trade spend figures at around 25% of sales, the payback on increased promotional effectiveness can be staggering.

85% of respondents said that they have issues with the quality of external data

Data

The 2017 POI survey also cast some light on issues with the internal workings and viability of a TPO system, specifically data quality. In this case, when data is distorted for any reason it reduces the accuracy of the prediction. This may be part of what drives trust issues in what is seen by users in a TPO system, but most certainly it will gain no credibility from manufactures or retailers if it has accuracy issues. Without going into how predictive models work, think of it as mixing up weather data from Iceland with that of Israel. The inputs come in from various sources but the system that parses them out cannot tell one source from the other. Thus the weather forecasts predict rain when there is none and mix up snow with sunshine. Nobody believes the weather forecasts for either place because of the mix-up with the data for two countries beginning with the same letter.

What our survey data shows is that 85% of respondents said that they have issues with the quality of external data. This is usually tied to point of sale (POS) data, which has many inherent issues with accuracy, time period alignment and so forth. There are several companies that offer services for acquiring, cleansing, harmonizing data, and staging this type of analysis. There are also capabilities for doing it yourself with more of a toolkit approach. Nevetheless, we don't recommend proceeding with a TPO initiative until 2-3 years of clean "sell out" data are available.

Getting TPM Right First

While this might seem valid as part of a stepwise approach, we have seen many TPO capabilities being groomed by a few power users on a few key accounts while the TPM system is still ramping up. On the one hand, it can keep you from asking too much change management from your organization. On the other, you can argue that the cost of waiting and seeing all that inefficient trade spending happen is just too much. Only you can make that determination. However, we tend to lean towards having a wave of users begin to work with TPO while the latter waves of TPM users are still getting up to speed. We have seen this work well provided it is managed appropriately. We also see that having a partner that offers services that wrap around the software (data management, cleansing, analysis services, training, help desk) can make it easier than it might appear on the surface.

Resources - Time

We fully recognize that everyone who took our survey has a full-time job. We haven't seen companies carelessly adding headcount in our careers spanning 30+ years. It is just a reality. The paradox is that it takes time to ferret out all the reports that nobody really reads and the processes that nobody is sure why they still do. It is always an aim to reduce non-value added processes, but hard to get traction. We offer no bromide here. But what we can say is that being able to free up even a modest amount of time to improve promotional outcomes should have a high value placed on it. Perhaps only and executive mandate will make it happen so we recommend that you start there. And besides, any TPO project without executive sponsorship will likely never get off the ground anyway. Find the time. Find the support. The benefits are well beyond worth it.

In summary

Merely purchasing a TPO capability without considering the human element is just not wise. The change management data clearly points to this. Ignoring this fact is to waste your money. The same for having the clean data that will be required to power the models. Outside of that, give some thought to how to build your business case. We have found various consulting firms with proprietary approaches that can help. If you want to do it yourself, take note of the three key items we highlighted above on business case development. Then find the time to keep pressing forward. Given that about two thirds of promotions don't break even, it will be vastly worth it just to reduce this number by 10 or so percentage points. Reach out to us and let's talk about your situation. We have toolkits, ability to leverage peers, best practices, and academic training we can help you with.

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.

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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.

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