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An Industry-wide effort produces a Standard Set of Trade Promotion Metrics for the Consumer Products Industry

The consumer products industry lacks a standard set of metrics related to the trade promotion process. As a result it is difficult to have meaningful dialog across companies and some cases to track progress within a single company.

Overview

Beginning in 2006 The Trade Promotion Management Associates, an industry association, collaborated with Gartner in sponsoring an initiative to define the key processes and related metrics for trade promotions as executed by the consumer goods industry. Dozens of industry participants and industry advisors contributed to the definition and validation of these processes and metrics.

Trade Promotion Management is discussed throughout, and is inclusive of Integrated Sales and Marketing, Demand Planning, Category Management, Brand Management, Account Management, Retail Execution, and the related back-end processes including Settlement, and Analysis. These all affect each other at numerous levels, and are driven by the availability and quality of data and connected processes with supporting integrated solutions.

The connections between these varied sets of activities, from strategic planning “down to” on the street execution, are necessary for companies to begin to understand "why" things perform above plan and/or miss plan. This could be poor strategy or positioning of brand to consumer, could be poor in-store execution, lack of a collaborative effort, or anything in between.

The subsequent metrics and definitions will serve as a means by which trading partners will base meaningful dialog, measurement, and improvement.

This document will be available on the TPMA website (www.tradepromo.org), will be updated annually through the TPMA, and will serve as the industry standard for Trade Promotion Metrics discussion.

Key Findings

- Inability of manufacturers to track results let alone predict outcomes of promotions is a contributing factor to the continuing increase in promotional spending.
- The trade promotions process must be broken down into sub-processes in order to assign meaningful metrics.
- Many consumer goods companies only have metrics associated with the outcomes of promotions, not the processes themselves. Therefore, effecting continuous improvement is a challenge if not impossible.
- The technology is now available to account for and measure trade promotion management activities and processes.

Recommendations

- Companies that execute trade promotions should look at the entire set of metrics and determine whether they are deriving benefit from measuring the outcomes as well as the processes themselves. They should also evaluate the degree to which they can more effectively benchmark their promotional activities because they have measures to do so.
- Vendors of technologies related to the trade promotions processes are key in inculcating the standard metrics in the industry by providing these standard metrics and automating them rather than forcing user organizations to configure technology solutions or to use one-off solutions to do so.
- Seek to automate the metrics as a necessary first step in order to ultimately use advanced analytical capabilities for predicting and optimizing outcomes.

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Strategic Planning Assumptions(s)

By 2008, consumer goods companies that can measure the complete trade promotions process and begin optimizing outcomes will be able to arrest the upward movement in trade spending (70% probability).

Analysis

Background

Perhaps the best way to frame up the need for standardized metrics related to trade promotions processes is through the use of a simple example:

Consider two attendees at an industry conference who are discussing trade promotion practices within their respective companies. With respect to how they create their trade deals, convey them to the trade, execute against them, and settle up at the end, there are few meaningful measures that could facilitate a conversation and possibly the sharing or best practices. This could be the case both at a market as well as the retailer-specific levels. There could be some discussion about total spending levels and perhaps the particulars of the settlement process, but such metrics are very much the summation or result a host of sub processes. Hence the need for specific metrics associated each step in the trade promotions process.

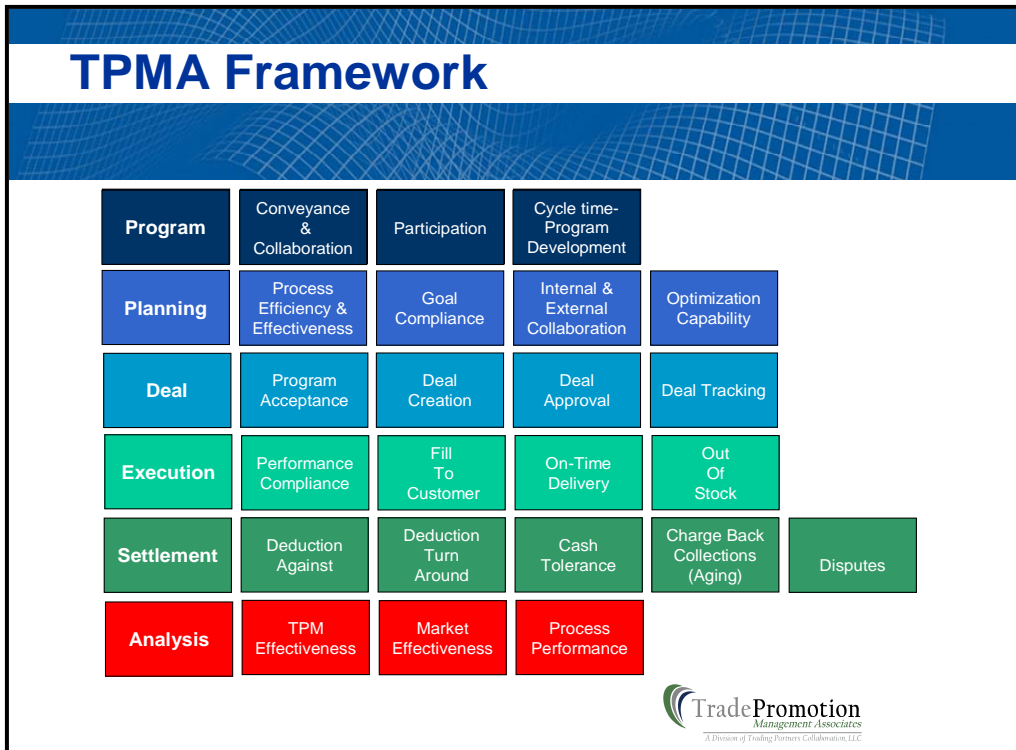
Trade Promotion Management Associates (TPMA) with Gartner embarked on this effort in 2006, TPMA using its industry trade association stature and membership in combination with Gartner's BVM framework, and CG/Retail industry thought leaders to establish a set of standard metrics. This document is the result of this collaborative process.

Approach

TPMA's, Mike Kantor, and Gartner's Dale Hagemeyer chaired the initiative with several industry leaders (see Acknowledgements), and utilized Gartner's Business Value Model to provide the common language necessary to bridge the gap between high-level strategic positions and the tactical activities necessary to make them happen. The Model does not replace traditional accounting metrics, it extends them. The Business Value Model adheres to the best practices for building a business scorecard. It is made up of leading indicators of financial results. The metrics are mutually exclusive and collectively exhaustive at a mid to upper management level, there are no more than 7 (+/- 2) metrics at any given management level and the relationships between the metrics (cause and effect) have been documented.

This framework was used to create and socialize the various metrics for the following key TPM processes:

The Processes



- **Program** – A specific channel initiative that will ultimately lead to a trade promotion.
- **Planning** – Taking the specifics of the channel initiative or program and adapting and preparing them to be presented to retailers.
- **Deal or sales agreement** – Combining the offer from the manufacturer with its acceptance from the retailer constitutes and results in a deal. This then drives the tactics to be executed in the market place.
- **Execution** – Carrying out the actual deal events in the market place, not just as seen at retail but through the entire value chain.
- **Settlement** – The reimbursement process from manufacturer to retailer for deals that have been executed.
- **Analytics** – Not really a process unto itself, but a series of analyses that support the above processes in order to be more fact based. Also, the final analysis of how what was actually executed compares to what was planned.

Each of the processes were assigned to a working team, which defined, refined and vetted the process definitions and metrics within the TPMA membership as well as other industry participants who are engaged in this process for their particular company. Each process group was chaired by an individual who was tasked with ensuring internal consistency and linkage across processes.

Process One: Program Development

Basic Premise

You can't measure what you don't see. If the promotional program performs and the resulting data is incomplete, future attempts to track, measure, analyze and model future promotional templates are futile. At best, the data is flawed and the results questionable.

This section deals with the basic content of the promotional offer – that is to say the terms, conditions, guidelines and financial consideration presented to and accepted by the trade channel by the manufacturer or distributor. The industry's most common term for this collection of criteria is a Program.

Programs vary across industries, channels of distribution, geographies, time and customers themselves. They are created to produce the highest overall return on the investment of trade funds and as such, programs are almost impossible to associate within a body of *standards*. But there are certain areas within which program development can be presented in a classification of industry or channel related stratification that can indeed be used as a guideline for future development of successful promotional results.

Also, while most industry experts agree that the standardization of a particular program often negates the flexibility and independence mandated by the largest channel companies, there are key standards that can and should be set for the process associated with and supporting the development, communication and measurement of the programs themselves. This is an area we will deal with most in this section.

This is the crux of our issue here. We understand how difficult, and virtually impossible it would be to mandate specific terms, but if you cannot provide an environment wherein the promotions themselves are consistently found to contain the necessary elements described below, the ability to optimize and maximize trade funds is lost.

Program Components

In the majority of major industrialized nations, there are laws that govern and set certain fundamental requirements for a manufacturer/supplier and the distributor/reseller in the offering and management of trade promotion. In the United States, the Robinson-Patman Act universally states that manufacturer/suppliers that offer trade promotion allowance programs have to do so to all of their reseller/distributor base on an equal and proportionate basis. While that stops short of mandating a particular percentage of net sales, participation (reimbursement/settlement) rate or eligible promotional activities; it does indeed demand that any deviation from this mandate requires special documented agreements from both parties that prove the need to meet a competitive offer that exceeds the program terms and conditions offered (the only REAL reason allowed under the law). Most consumer durables companies' sales and marketing people routinely ignore these provisions; however if you talk with the corporate legal counsel, you will quickly note that there is no such ignorance or nonchalance among them. Programs are generally required to be passed through legal review before being communicated as the company policy.

However that is not the case in consumer packaged goods, where the terms and conditions of the programs are often created in the field by the sales rep or broker A/E, then presented to the trade customer. Of course the major trade channel companies often mandate the program terms already – completely removing the manufacturer from the equation of program development. Nonetheless, there are basic program elements or components that can be derived from virtually any trade promotion offer in any industry to any channel.

Basic Trade Promotion Elements

Program Component	Definition	Industry Notes
Fund Level	<i>The amount of money being offered within the promotional deal</i>	
Funding Source	<i>How the amount of the money is determined (i.e. accrued based on sales or POS, allocated as a discretionary "gift" or earned at the point of sale (such as a rebate or scan-based promotion)</i>	<i>In most durables industries, funds are accrued as a percentage of net sales. However, all industries provide discretionary "over and above" funding that can be accrued or simply budgeted for allocation.</i>
Fund Timing	<i>The period of time within which the funding is generated (e.g. products purchased within a particular period of time accrue at a specific rate or receive a fixed allocation of funds based on some other consideration – such as a commitment to buy a specific product, participate in an ad promotion, etc.)</i>	<i>CPG fund timing is typically a much shorter period of time – averaging between 2 and 6 weeks. Durables and all other industries often maintain much longer accrual periods (e.g. a quarter or year). Discretionary funding is typically budgeted during a year, with additional funds for a particular promotion or campaign initiative.</i>
Performance Timing	<i>The timeframe for a particular promotion. Essentially, this is the date often regulated by the initial sale of product through the completion of the promotional activity performance (i.e. run dates).</i>	<i>Where co-op advertising programs are the prevalent form of trade promotion offer, the period is typically defined as a quarter or even a year – loosely defined by the fund timing.</i>
Promotional Activity	<i>The specific action taken by the channel in support of the promotion (e.g. media ad, coupon drop, TPR, display, rebate, trade show SPIF program, etc.)</i>	<i>In CPG, there are "norms" for these activities; however they are typically unpublished. In durables, there are extensive published guidelines defining the eligibility and content requirements.</i>
Content Requirement	<i>The nature of the message provided through whatever promotional activity or action is taken. For instance, it includes the use of the company's logo, trademark, specific brand or product identification, model numbers, or other perception-creating methods).</i>	<i>Again, in durables programs, the content is often created and communicated within a formal publication and/or on-line within the website of the company.</i>

It is somewhat foolhardy to either establish or consider enforcing standards among these above criteria for a number of reasons. Primary among them would be the utter difficulty for any company to adhere to or mandate such standards. Secondarily, within certain industries, the federal authorities would see any attempt at regulation of "standards" to be a form of collusion, or, for instance where price is involved, to establish any specific agreements on price ranges.

Our committee's view on this is that it is more appropriate to simply offer these as a standard in and of themselves – indicating that a best practice “deal” or promotional offer would be inclusive of all of these elements. That is to say that any promotion offered to any reseller or distributor in any industry would meet “standard” if it was able to demonstrate an effective methodology for ensuring that every promotion contained these elements.

Many of our committee members argued, however, that while this may seem rudimentary, it is not always an easy standard to meet. For instance, CPG companies often find themselves originating and committing to deals that contained an uncomfortably reduced subset of these components. For instance, the following deal:

Funds:	\$2,000.00
Timing:	“Back to School” (discretionary choice of trade account)
Activity:	Display and TPR
Settlement:	Deduction

Our reasoning is simple. This promotional deal sheet contains only minimal program offer elements and even for those it does refer to (e.g. “Display”), we have no idea what type, where it is in the store, or how many stores actually execute the performance. We also lack a set date.

We can derive the dates from a typical “back to school” promotion period, of course, but there again, the data is less than complete. Therefore, it is less than what we require to measure and analyze effectiveness and efficiency.

The Process of Program Development

What we can establish are basic standards around the process and policy for program development and execution. We can also provide recommended “standards” for how a program is allowed to be deviated – a key concern of many legal and financial analysts, as well as marketing executives who design the program to achieve certain stated goals and objectives.

Both policy and process standardization is based on Program execution in one of two forms: Strategic and Tactical. Strategic programs are those that are created in advance by the marketing organization based on the general underlying goals and objectives sought. In the consumer durables, financial services, high tech and other similar non-CPG/FMCG categories, this is best represented as the basic terms and conditions, guidelines and rules of a co-op advertising program or channel rebate plan. Tactical programs, on the other hand, are those that are created for a particular promotional period or theme or “on the fly” by field sales reps, broker or independent rep firm A/E's, or at times, within the corporate sales and marketing organizations. In the consumer packaged goods arena, this is the primary and most common of promotional programs. In other industries, these are becoming more commonplace as major retail accounts demand periodic and/or specific action by a supplier/manufacturer for a particular promotion, event, campaign, etc.

There are general standards for program development that apply to both strategic and tactical types. In addition, there are specific recommended standards for policy and process. We will address these standards in the tables represented below.

General Standards for Process

Item	Definition	Standard	Comment
Performance Assessment	Using previous year performance data to assess the value of current programs and make modifications or additions to satisfy current corporate objectives.	Perform initially at the point of planning for the year and periodically (at least quarterly) throughout the year.	<i>By now, most companies have at least a sophisticated reporting tool with the ability to perform enough analyses to determine program performance effectiveness.</i>
Goal & Objectives Alignment	A specific process wherein the goals and objectives of the company are established for marketing, sales and market share.	<ul style="list-style-type: none"> • Sales compensation is aligned with promotion goals • Programs embed the rules and guidelines of prior year success. • Channel goals and objectives are compared and met with new programs 	<i>The key thing here is to ensure that internally, sales goals are not counter to marketing and promotion objectives. If profitable growth is a goal, compensation must be aligned to enforce execution of more profitable programs.</i>
Origination of Terms	Where the program is created and who is responsible for the creation of the program intent, terms, conditions, rules, guidelines, etc.	<ul style="list-style-type: none"> • Basic strategic programs – those that either run throughout the year or are regularly part of the annual trade promotion calendar (e.g. in support of a national campaign or theme) should be created by corporate marketing • Tactical or variable promotions naturally created by the sales organization must be done within a template¹ • Approval must be given to marketing, legal and sometimes finance. • Best practice includes automated template rules that prohibit non-standard 	<i>Essentially, this is the standard measured for HOW programs are created. In the CPG industry, most programs are actually created in the field by reps and brokers. But this is a clear trend in other industries as more sophisticated planning technology is deployed.</i>

¹ A “template” promotional program is one that contains the primary elements of a promotion such as funding source and methodology, eligibility, approved media and/or promotional types, settlement methodology, time frame, etc. Most tactical programs fit these “molds;” however those that are often most deviant from the norm lead to difficulties in measurement and, therefore, effective ROI analysis.

General Standards for Process

Item	Definition	Standard	Comment
Format	The actual structure of a program's terms, conditions, guidelines and funding methodology. How the program "looks" on paper and its related communication medium.	<p>promotional terms or formats.</p> <ul style="list-style-type: none"> • Brevity • Fund accrual and/or allocation schemes • Eligible customers, promotion activity types, and products • Instructions about how the channel customer is paid, credited, or allowed to deduct (settlement) 	
Legal Review	Corporate legal counsel review and approval of program terms, conditions, guidelines and rules.	<ul style="list-style-type: none"> • 48-hour turnaround • Corporate enforcement of legal rulings • Full and complete documentation of review and comment • Executed as directed by legal (not ignoring the issues legal brings up) 	<i>Robinson-Patman is both alive and well today. Companies that believe that the FTC will not strike down a program and cause significant damage to a company's position in the industry over trade promotion need only to look at recent cases such as McCormick.</i>
Approval	Routing and securing the approval of key executives with appropriate ongoing oversight.	<ul style="list-style-type: none"> • Should take no longer than 2 business days • Should be automated • Should include the ability of any approval party to hold, question, reject or approve the program • Must allow for interrupt and alert capability (e.g. routing to the next person in line if someone is out of the office, routing to an alternate, and/or providing alerts when the timing expires on the person for whom the program is now ready for review and approval. 	<i>Given pressures from Sarbanes-Oxley, this has become a key issue for most companies in virtually all industries.</i>
Communication	Distributing the program terms, conditions, rules and content to the corporate, field and all eligible trade accounts.	<ul style="list-style-type: none"> • Adherence to the legal requirement for program offers (e.g. R-P "equal and proportionate" offering to all competitors within a market) • Notification field sales reps, broker and independent rep firms 	

General Standards for Process

Item	Definition	Standard	Comment
		<p>BEFORE it goes to the trade channel.</p> <ul style="list-style-type: none"> • Directions to both the field reps and to the channel accounts for execution of the program. • Placement on the company web site in a prominent easy-to-get-to link • Full time customer service personnel to answer questions on a 8-6 PM, coast to coast US time frame. • Confirmation from the channel account that they did indeed receive and understand the program terms. 	
<p>Measurement</p>	<p>Establishing key performance indicators that can be tracked, measured and analyzed to determine program performance ROI and results.</p>	<ul style="list-style-type: none"> • High, or at least desired program participation by the trade channel • Method for immediate feedback from the field and trade customer. • The ability to track, measure and delineate between ongoing program performance ROI and specific deal or periodic campaign promotions • Compilation and distribution of summary results data to field and customers 	<p><i>The one key area of concern here is the need for and the difficulty of being able to measure specific sales and/or profitability results from general or baseline programs. Care must be taken to ensure that overlapping programs that benefit the same product are able to be distinguished enough for individual measurement. It is extremely difficult to do this unless there is a fully automated and comprehensive integrated analytics tool set available.</i></p>

As we indicated earlier, there is virtually no way at this point in the relatively immature promotion performance analysis practice throughout most industries to establish a standard for specific program strategy; and even less of a capability for tactical standardization. However there are other important indicators where we can provide *guidelines* against which any company can measure their program development, execution and measurement.

General Standards for Policy

This is a very sensitive topic around which standards are also difficult to establish. The reason for this is that many companies in numerous industries have had to adopt programs submitted or mandated by their major channel accounts. The table below attempts to establish some basic rudimentary policy standards for the development and execution of trade promotion programs.

Program Issue	Suggested Policy Standard	Comment
<p style="text-align: center;">Funding Levels</p>	<ul style="list-style-type: none"> • Programs should follow strict allowance guidelines – maximum deviations to existing fund allocation amounts or accrual rate ranges • Any program submitted for fund levels exceeding existing terms must <u>always</u> be approved with “Meeting Competition” justification documented 	<p><i>Robinson-Patman guidelines are still very much at issue here. It behooves any supplier or channel company to pay attention to the equality and proportionality guides of the FTC mandates.</i></p>
<p style="text-align: center;">Corporate Marketing Alignment</p>	<p>Deviations to the trade calendar and/or corporate advertising and marketing themes, campaigns and initiatives should be cleared before submitting a promotion program plan.</p>	<p><i>This would include any program submitted by the trade channel that also deviates from the corporate plan. This will help to establish and maintain alignment of objectives and goals.</i></p>
<p style="text-align: center;">Timing</p> <p>Timing is broken into two major policy areas:</p> <ol style="list-style-type: none"> 1. The process required for moving from origination to commitment, and, 2. Maintaining consistency in alignment with corporate marketing programs and themes 	<p>Process:</p> <p>Industry best practice is to complete and approve for commitment a promotion plan, pre-approval or deal within <u>5 business days</u>.</p> <p>Promotion Timing:</p> <p>Deviations of two to three calendar days are the industry norm. If the trade customer desires more than that, it should be routed for higher approval. (We refer to the actual time frame within which the promotional performance takes place)</p>	<p><i>The problem here is that for process, less automated sales and marketing organizations regularly take up to two weeks to initiate a promo plan. It may not be possible to improve on this with a fully manual planning process. Also, for process timing, durables industries often take weeks to fully approve a promotion, even with adequate automation.</i></p>
<p style="text-align: center;">Execution</p>	<ul style="list-style-type: none"> • Establish measurement criteria and indices before the promotion takes place. • Actively monitor the performance compliance during the promotion. • Ensure that the trade customer documents all performance and cost, or signals when deductions will be made • Independently document performance by collecting ads, taking photos of displays and ensuring any pricing is accurately 	

Program Issue	Suggested Policy Standard	Comment
	portrayed. <ul style="list-style-type: none"> • Notify TPM administration of any deviations, changes or other notices given by the retailer or noticed in performance compliance monitoring <i>immediately!</i> 	
Approval	Approvals (on an individual basis) must be given within 24hours or at least acted upon if there is a question or other reason for inability to approve or reject.	
Settlement	<i>Deductions:</i> Researched, identified and settled within 10 business days <i>Claims:</i> Processed and submitted for settlement queue within 5 business days ² <i>Write-Offs:</i> Most write offs are now set as less than \$50.00 per instance. <i>HOLDS:</i> For those claims or deducts on a hold status, the industry average standard is to take final action within 30 days.	
Legal Review	Required for all new programs or any new program terms – especially those that put the company into a non-compliance position with Robinson-Patman or Sarbanes-Oxley (In the USA).	<i>We realize that this might mean legal review for every CPG promotion planned! However, the value of the program template is to set parameters within which the sales force can work and/or marketing planners can develop new terms.</i>

In many ways, policies toward critical promotion management issues such as measurement and analysis are seen as nebulous unless tied to a specific goal and/or objective indicator. We did not insert a “Performance Measurement” issue above because it is obvious that all promotions planned should contain at least a business objective with potentially multiple goals of financial return, volume moved or share position impact – often all three. The entirety of integrated analytics is still rather immature for trade promotion, therefore we will hold off on specific numbers or criteria.

Summary

The development of an effective promotion should be governed or at least managed within a well defined set of standards. These above are to be considered as a first pass attempt to provide a *dialogue* from which future standards can be established, tested and validated. Only then can we, as an industry, begin to accept and enforce corporate performance both at the supplier level and within the channels of distribution.

² This does not mean pay or credit; rather it applies to the actions taken that will put the payment or settlement into a more formal status class. For instance, there may be additional information requested that delays the settlement. In this case, the claim or charge would be set on a “Hold” status of some type, and be counted as an open liability.

Process Two: Planning

Overall Direction: Definition of what planning constitutes.

- Planning process has 2 parts which include HQ planning for overall strategy and the bottom up planning by account/wk/SKU level sales planning. We talked out the bottom up planning is close to the deals process as per Linda's feedback below. Companies use planning in one of these 2 contexts.
- Typical activities in corporate planning include Revenue/Volume/Margin growth targets by team/account which will help determine the trade rate, product portfolio mix, market segmentation etc.
- The metrics defined are essentially reviewing prior performance and metrics to determine forward looking plans both from a HQ and Sales planning perspectives.

Metrics: Feedback/comments on specific metrics.

Review Metrics - Modified "Net vs. Promo Vol" metric to "Promo Vol as a % of Total"

Goals – Added "Cost per Shipped (Case, Unit, Pound) due to the following issues

- IRI data represents 35 – 40% volume in some cases.
- Data and technology difficult to estimate base and incremental volume especially with EDLP scenarios

Category/Brand/Portfolio – Articulated that this is more of an analysis by Category, Brand, SKU across different Channel/Account/Target Market. Agree with the metric Mix Margin and Price Elasticity considerations to evaluate overall product portfolio mix.

Marketing – Removed "Promotion vs. Media Spend" as it is not actionable. Added "Marketing Mix by Brand" which is evaluation of marketing mix effectiveness by advertising, trade funds, events, coupons, prints etc.

Execution – Removed OOS% as it does not relate to visibility for planning. Added "% quality Merchandising" which is evaluation of various merchandising strategy to achieve the right marketing mix by brand.

Planning Matrix

Review	Promo Vol as % of Total YOY, Budget vs. Actual	→	Promotional volume comparison with total volume (year over year) Budget vs. actual spend
Goals	Promotion ROI, Cost per shipped (Case, Unit, Lb.) Cost per incremental (Case, Unit, Lb.)	→	ROI – Incr. profit / promotional spend CPS (Case, Unit, Lb.) – Shipments/Cost to promote CPI (Case, Unit, Lb.) – Incremental (Case, Unit, Lb.) divided by cost to promote
Category/ Brand / Portfolio	Revenue, Profitability & Market Share by Category, Channel, Segment (Mix Margin)	→	Historic and prediction of revenue, profitability and market share for the product mix by account, channel, segment Price elasticity
Marketing	Share of Voice %, Marketing Mix by Brand	→	% of GRP of the product vs. Category Marketing mix effectiveness (ROI) by advertising, trade funds, events, coupons, prints etc. by brand
Execution	ACV Wt. Distribution, Shelf Performance, % Quality Merchandising	→	ACV of carrying stores/ACV of all stores % of time product is in correct location in store during promotion Merchandising support including Display, Feature, Promotion ACV

Process Three: The “Deal” or Sales Agreement

An offer by the manufacturer or agent, once accepted becomes a sales agreement or in the parlance of the industry, a “deal”. In the deal there will be specific terms, conditions and performance by both parties in order to bring the promotion to fruition. The primary steps in the process also correspond to they key metrics:

1. Program acceptance – in which an agreement is made and both parties will now execute against it. In this process the manufacturer will need to:
 - Forecast the mix of product and the planned trade spending required to deliver that forecast.
 - Create a matrix of promotion types that were offered and accepted. This will include the relevant product and tactic(s) for each account and the promotional volume versus normal “turn” volume that would occur in absence of a promotion.
 - Create a timeline for the deal outlining when it will begin and end, when the period for the retailer to buy product associated with that deal will begin and end, and estimate the impact of “buy out” over the total purchase horizon (not just the deal period)
 - Combine these key elements to determine the ROI of the promotion
2. Deal creation performance – the deal is typically entered into some sort of tracking system both parties so that it can be more systematically executed. This will become the basis for simulation of scenarios which may include:
 - ROI including the total cost of the promotion including total trade spend and total cases expected to be sold
 - Cost per incremental case sold. This should include any product “buy out” that will impact future purchase by the retailer after the program has ended.
 - Impact of any halo effect (i.e. products that sell incrementally even though they aren’t on deal but because a product that is related to it is) and any cannibalization (i.e the inverse of a halo which is where sales are transferred to the dealt item from other items and hence cannibalized)
 - Any impacts across the category
 - An impact of moving volume from one retailer to another in the same geography – a sort of cannibalization across retailers.
3. Deal tracking – applying measures and giving visibility to interested parties relative to:
 - Measuring the deals offered to the customer versus those that are actually executed
 - Measuring the mix offered in promotions as compared to the mix defined in the account plan
 - Total funds budgeted
 - Planned volume
 - Planned or budgeted margin by product group.
 - Deal rejected so that if post audit claims are received after the fact they can be refuted if the deal was rejected.

4. Deal evaluation – unlike tracking, which is a monitoring process, deal evaluation is the post mortem on the program to determine how it went versus expectations and commitments. The process is actually captured as part of the analysis phase, but the post deal analysis from previous periods is a key consideration in this process.

The resulting key metrics are therefore:

Category	Description
Overall Metric Definition Parameters	Program Acceptance Percentage of manufacturer's channel customers who have signed up for the program proposed by the manufacturer. The program is defined as the overall strategic umbrella that governs the deal process Program Guideline Approval, Sales Effectiveness, Trade Spend Percent, Lead-Time Period (30-60-90).
Overall Metric Definition Parameters	Deal Creation Performance The expected incremental lift and percent above predetermined margin tolerance. Deals are crafted with a 360 degree view of Trade Spending on all products, and are documented by allowance type (co-op, MDF, Rebate, Slotting) and by business unit. Margin Tolerance, Brand Hierarchy, Cost/or Margin/Incremental Case Lift, Channel/Retailer* *Need to consider product lifecycle in decision, and market share exceptions
Overall Metric Definition Parameters	Deal Approval Percent Percent of deals completed between Buyers and Manufacturer's reps (without going through a hierarchy) Brand Hierarchy, Class of trade, Margin Tolerance.
Overall Metric Definition Parameters	Deal Tracking The sum of trade funds less committed and spent funds. Allowing real-time visibility and collaboration with supply-chain activities and promotion execution. Trade spend (by unit, by allowance type), Fill to Customer, Quarterly Plan Variance
Overall Metric Definition Parameters	Trade Spend Percent Total promotion-related spending as a percentage of net sales Brand hierarchy, Class of trade, time period.

Category	Description
	Program Acceptance: # of Customers Accepted Program / Total # of Customers Deal Creation Performance: Projected Incremental Lift – Total Promotional Costs Deal Approval Percent: Deals Requiring Approval / Deals Committed Deal Tracking: Projected Budget - Projected Spend* *Projected concept is key – actual results to date + forecasts fwd

In summary, being able to agree upon the deal sets the stage for proper execution and ensures that the due diligence has been performed and expectations appropriately set. If, not no matter what the promotion may yield, expectations, if left to develop themselves, will not have been met. Also, the deal process is the final point for managerial oversight. Once the deal has been accepted it is difficult to modify – not impossible but difficult – and changes can often lead to misunderstandings.

Process Four: Execution

In the context of trade promotions and standards, proper execution assumes agreed upon principles of protocol. However, the standard seems to be negotiated on a case by case basis between the buyer and seller. There are several “moments of truth” previous to this one but here is where the consequences become more financial in nature. It is also one of the processes where manufacturers and their agents struggle because of the lack of relatively-real-time monitoring capabilities. As a result by the time a shortcoming in execution is known, it is often too late to impact the promotion. In fact, the promotion may very well be over. Hence it is not only critical to measure accurately and consistently over time but to measure at appropriate intervals.

The first standard for execution is transparent mutual objectives and includes:

- Supplier and retailer both knowing what the expectations are for the deal. This has to have been clearly articulated in the previous process. There are no unspoken assumptions. This underscores the collaboration that is so talked about but rarely achieved in the marketplace today.
- Both have the ability to perform against the agreement.
- Both have an expected performance objectives and tasks and these are mutually known
- Once the actual performance takes place the results are shared in order to close the loop and begin the cycle again.

Even though there are mutual objectives and they transparent, they are not identical. Suppliers may have slightly different objectives. For example, a retailer may want to maximize market share while the supplier may want to maximize profits. As long as these objectives are known and shared, there is likely a program that can accomplish that which each party seeks.

Supplier objectives typically take the following forms:

- Sales expectations – account growth, unit volume, shelf space, no product returns, little or no margin support, profits
- More business - more revenues from more loyal consumers
- Accuracy – Financial terms, how allowances will be taken, item data (SKU cost, UPC, special cost, hazardous material warning, etc) packing specifics, invoice and payment address data, drawback / import duty reclamation, lead time component
- Funding – Understanding who will be paying for what, knowing the specifics of a dollar amount or percent of purchases, knowing the methodology of claim payments (EFT, credit memo, deduction)

Retailers also have their typical objectives which include:

- Funding schemes – knowing whether it will be a specific dollar amount or a percent of purchases, defining what conditions must be met for the deal to be considered complete (proofs of ad costs, MAP, ad layouts, logos used, specific media channels, what documents are required)
- Sales and profit expectations:
 - Knowing how success is defined
 - Accuracy of data in calculations
 - Inclusion of logistics costs
 - Drawback / Import duty reclamation
 - Retailer lead time components

Product promotions – a clear understanding of the ads and corresponding media channels, product placement,

Sales data – whether the relevant sales data is product sell through, scanner data, or inventory

Documentation required – Time sheets, ads (tear sheets), media documents (RAB, scripts, DVDs, DAT, etc.), promotional materials, signage, fixture replacements

The second standard of performance is with regard to supply chain. This includes a more similar list for both supplier and retailer which include what has been agreed upon in:

- Performance – what is shipped is consistent with the PO
- Item – is consistent with the specified characteristics
- Time – adherence to required lead time for both ship and receipt dates
- Quantity – the case pack and POI quantities
- Transportation – The time, data and carrier

The third and final standard of performance is metrics specific:

- Performance consistent with objectives
- Achievement of supplier and retailer sales, profitability, shelf space, and market share expectations
- Capturing proof-of-performance as a legal as well as cultural requirement to ensure proper execution

The resulting standard execution metrics of greatest import are:

Objectives	Supplier	Retailer	Desired Metric
Sales	Forecast Accuracy	Out-of-Stock	Zero Variance
Profit	Program Compliance	End of Deal Margin	XX% Final Margin
Lead Time	PO to Dock	Dock to Floor	X Days
	Delivery Time	Delivery Time	Floor Ready
Logistics	Carrier	Carrier	Correct Carrier
Quantity	Shipped	Received	100% Shipment of PO
Physical	Pallets, Case, LDU, Shrink, Markings, Customs	Pallets, Case, LDU, Shrink, Markings, Customs	100% Data Sync
Returns	None	None	Zero Returns
Payment	Define	Define	On time as specified
Documents	Proof-of-Performance	Proof-of-Performance	Physical Evidence / Independent Audit
	Customs Manifests		Import Manifest
		Customs Manifests	Export Manifest

Process Five: Settlement

Because trade promotions are nearly always funded by suppliers, it is necessary for them to settle or reimburse retailers for promotional activities. Some of these activities may be relatively simple. For example, a supplier and retailer may agree on an in-store demonstrator program. The manufacturer contracts with an outside agency for personnel to prepare and dispatch food items to shoppers. In anticipation of such an event, an extra quantity of the items is shipped to the participating store. The demonstrator pulls product from the back stock and keeps track of what is used. The supplier then

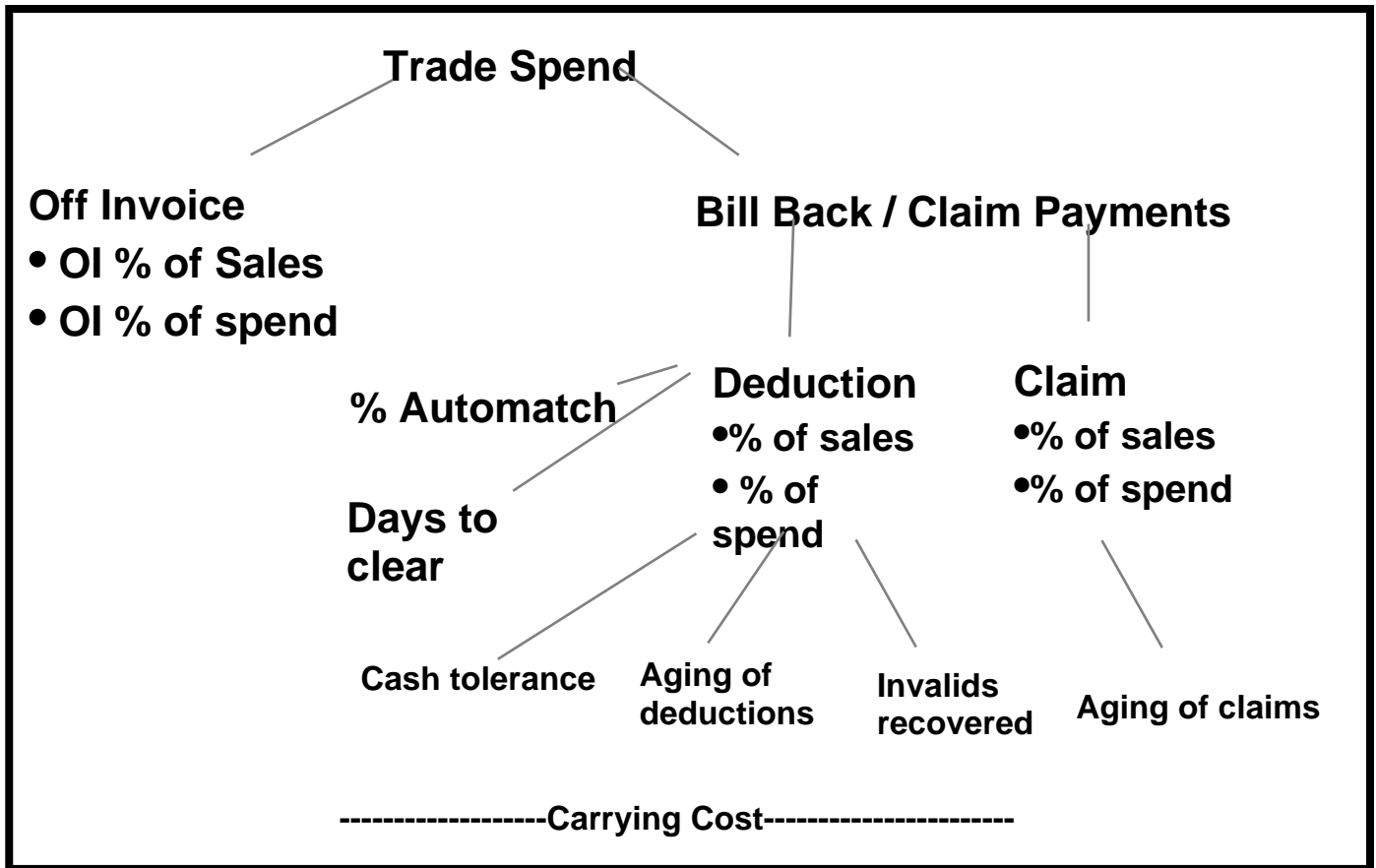
There are basically two options for settlement, through claims and through deductions. What is not considered here in depth are off invoice and pre-payment schemes because the money changes hands before the merchandising occurs. Therefore, there is no settlement process. In all cases the spending is tracked as part of the program and the execution is monitored but settlement does not occur after the fact.

The claims process is most common with durable and semi durable goods. The exception is in the convenience store channel where reimbursement often takes place at the store level. In this process, after a promotion has taken place, the retailer submits a claim to the supplier for what was agreed to in the program. This may be for a new store opening, assembly of merchandise (such as bicycles or outdoor cooking equipment), growth incentive programs, or merchandising activities. Once the claim is received, it is evaluated for viability and accuracy and most often matched against the funds set aside in the planning process. Once it has been authorized, a check is issued. Usually the check is sent via mail but in the convenience store channel the account manager may choose to hand deliver the check to the local operator.

The deductions process covers many of the same types of promotional activities but instead of making a claim, the retailer "short pays" on some future remittance for product and references the promotion event so that the supplier can cover the short payment with funds set aside or accrued for the promotion. This is a more complex process because of the matching that has to take place and because retailers don't always deduct from the corresponding brand or operating division. Also, there is a prevailing attitude by retailers that whatever they can get away with is fair game. As a result they often obfuscate the documentation and process in order to increase their profitability. In some cases they actually take deductions that are not legitimate in order to thereby bolster their cash flow during times of economic hardship.

The corresponding metrics for settlement are designed to identify the type of deduction/claim, determine its legitimacy, measure how long it takes to get it resolved, and measure the degree to which illegitimate items are successfully refuted. Graphically, a roughly hybridized decision tree/process map is shown in figure 1.

Figure 1: The Settlement Process



We now define the various settlement metrics and describe their importance. Because the settlement process is largely monetary, there are limitless metrics that can be derived. Here we have rationalized to those that are most key.

Trade Spend – as the most aggregated of the metrics, this describes the total trade spend with a particular retailer. Programs and funding schemes may vary over time but this metric is important to both retailers and manufacturers. This is also the highly monitored metric that has steadily crept up over time despite the best efforts of manufacturers to flatten or reduce it.

Bill Back / Claims – are key metrics both in absolute dollars and as a percent of total trade spend. Since retailer performance is considered easier to achieve with bill back and claimed funds, these are the principal tools in paying for performance. They are also relevant as litmus tests for deductions. Bill back and claim funds are usually allocated or accrued. Deduction balances can be weighed against planned spending as a quick test to tell if a retailer is trying to take advantage of a supplier.

Percentage automatch – Is an efficiency metric. It looks at the efficiency with which credit memos can be put into an ERP system such that deductions automatically are cleared based on product, timing, and monetary amount criteria. It also highlights instances where there may be “unplanned spending” in play. If a sales person extends a deal that is not captured in the plan, it will most likely not automatch. This is an important data point for financial control and SOX compliance. More automatch is a good thing because it frees up sales and revenue management personnel from having to manually intervene in the settlement process.

Days to clear – Describes the elapsed time from when a deduction is recognized as a merchandizing-related short payment to the time it is cleared. This is important for several reasons:

- Because as deductions age the probability of successfully charging the retailer back for an unauthorized deduction are reduced.
- The short payment is usually captured as a receivable in the financials so it has an impact of working capital
- It is a good way to tell how well the account manager is managing the financial aspects of the relationship. Tardiness in clearing deductions may lead to latency in recognizing trade spending, which can hide overspends and hamper post event analysis.

Cash tolerance – Is rather an odd term but refers to deductions that are of a sufficiently low dollar amount that they are not worth the effort of researching them to find out whether they are legitimate. The amount is typically in the hundreds of dollars. It is widely known that unscrupulous retailers will take a series of deductions in small amounts until they discover the cash tolerances level and then continue to “fly under the radar screen” with deductions of approximately that amount. It is only when these deductions are properly coded and aggregated that a pattern will appear.

Aging of deductions – is similar to aging of accounts receivable. This shows the quantity and monetary amount of deductions that fall into a 30, 60, 90, 120 and so on day bracket. The “weighting” of the aging considers both the number of deductions and the monetary amount so that they can be prioritized accordingly. Aging of deductions can be used as a more actionable approach than merely tracking the number of days to clear

Invalids recovered – Many manufacturers have a charge back process for invalid deductions. This is a means of correcting errors and “checking” bad behavior. The industry collects less than 50 percent of invalids that are identified so it is important to track the degree to which a retailer may take invalid deductions and how recoverable they are.

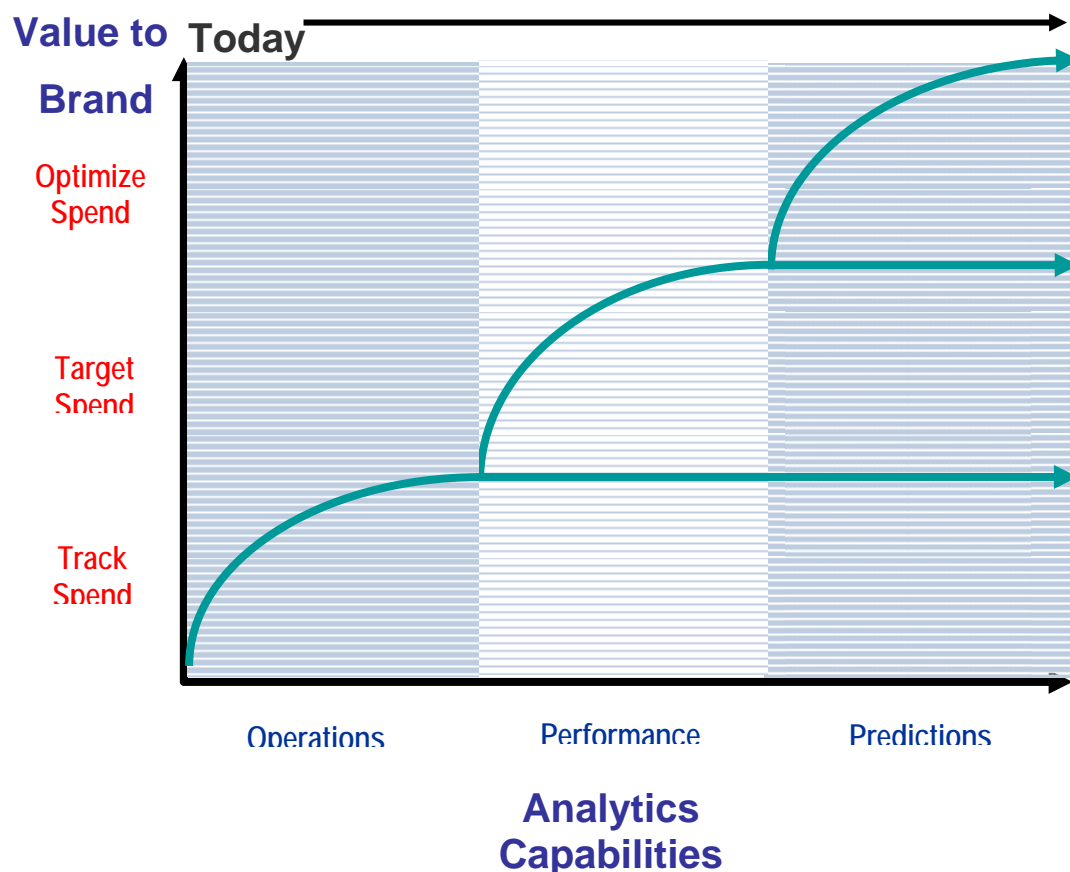
Aging of claims – is the counterpart of aging of deductions except for who is holding the money. In the case of a deduction, the retailer holds the money in question. In the case of a claim, the manufacturer has the money until the claim is settled. The main reason for tracking it is that it is good business practice to settle quickly. This avoids any confusion and bad will associated with retailers feeling that they are not being dealt with fairly. There is also a motivational aspect with settling quickly. In a Pavlovian sense, account managers like to reinforce participation in promotions by paying quickly and when possible by delivering the check in-person. This makes the retailer more happy to see the account manager and more likely to take the time for a personal visit.

Carrying cost – Looks at the impact of bill back items on the financial statements while they are still being researched or refuted. Because the “short pay” money is held by the retailer until the deduction is cleared, many manufacturers choose to calculate the carrying cost. This is likely a hold over from the Economic Value Added (EVA) approach that was common in the 80’s and 90’s whereby indirect financing is captured as a cost. Subtle as it may seem, a major US “big box” retailer went into bankruptcy in the late 1990s and took deductions in amounts as high as 60 percent of sales. It subsequently took manufacturers several months to sort out the few deductions that were valid. The retailer had in effect taken an interest free loan from its suppliers in an effort to bolster its cash flow.

Process Six: Analytics

In many cases analytics is not a separate process unto itself but a methodical way of looking at the promotion-related processes outlined thus far. However, we are calling out analytics as a separate process in the context of the entire process. Specifically, the effectiveness of the promotion, the impact on the market, and the performance of the various processes are the overall metrics. The underlying premise is that metrics drive improvement. This takes three forms: operational, performance and predictive. Therefore, merely tracking spending is of some value but quickly reaches a plateau in terms of the value it provides to the brand. The same is true for analytics of targeting spending and staying within budget. The greatest value lies in optimizing spending. This connotes a continuous analyzing, learning and adjustment process. Figure 2 shows this relationship graphically.

Figure 2. Relative Value of Analytics by Type and Over Time.



The chart also illustrates how going forward from today, many of the analytical components have essentially stopped providing incremental value, either on an absolute basis or relative to competition. Thus it is critical that analytical capabilities support promotions by optimizing and influencing outcomes.

With that said, the key metrics can be summarized in the following chart.

Key Metrics for Analytics Process

Category	Description
Overall Metric	Trade Promotion Effectiveness
Definition	Effective “payback” of trade spend at margin line, profitable promotions
Parameters	Brand hierarchy, Customer, time period, program (tactic & price point)
Overall Metric	Market Effectiveness
Definition	Impact of brand programs on category within the marketplace: share increase, ACV performance
Parameters	Category hierarchy, Geography, time period, program
Overall Metric	Process Performance
Definition	Continuous improvement based on key learning’s leading to best practice
Parameters	Include all functional teams “actions” during business cycle
Overall Metric	All the previous
Definition	
Parameters	

By way of further definition, trade promotion effectiveness at the market, event or promotional level has the following specific metrics and formulae:

Metric	Formulae
Sales volume and spending	Actual as a ratio or percentage of plan
Return on investment	Profit divided by funds spent
Incremental volume	Total volume less baseline volume
Spend rate per case	Total spend divided by total volume
Lift	Incremental volume divided by baseline volume

Each of these promotional metrics can be analyzed at the operational level to perform the calculations and measure change over time. Similarly they can be analyzed for performance to determine where they were strong and where they need improvement. For example, where the expected lift was not achieved and why. Was it the weather? Competitive activity? Poor execution at retail? Ultimately, the greatest value will come be derived from optimization scenarios which systematically look to improve outcomes based on causal factors. The difference lies in the “performance” approach relying on humans to create causal relationships and projections using a reporting-type solution instead of mathematical and statistically driven machines to do the same with greater accuracy, rigor and speed. Nevertheless, the metrics remain the same.

Summary

Dozens of industry participants, solution providers, and industry advisors worked for over a year under the banner of the TPMA to define the processes and initiate a set of standard metrics. Those who participated as well as helped in vetting the metrics believe that having standard metrics will foment better communication and collaboration both across and within the consumer goods companies that adopt them. In short, the metrics will provide the basis for communication, comparison and ultimately methodical optimization that can provide the competitive advantage in the market place that trade promotions were intended to garner in the first place.

As the industry is consumer driven, trading partners will need to define clear ownership within each company for meeting consumer's needs with regard to products, promotions, messaging/media, and merchandising. A metrics based collaborative effort will enable trading partners to best meet the needs of their businesses and the lifestyle of their consumer.

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Recommended Readings and Resources

Trade Promotion Marketing, by Bob Houk (Assn of Nat'l Advertisers, Inc.)

The Agency Agenda: Selling Food in a Frictionless Marketplace, by Glen A Terbeek (Breakaway Strategies, Inc.)

Trade Promotion Management Associates, www.tradepromo.org

About the TPMA

TPMA - the Trade Promotion Management Association - is an organization dedicated to the effective and efficient use of trade promotion dollars. TPMA is a resource for information and education on all types of trade allowance programs, including the latest industry regulations such as FASB and Sarbanes-Oxley. We gather the latest research and trends from industry experts, as well as distribute Best Practices information from industry-leading organizations.

Our Members include:

Manufacturers who provide trade allowance programs to retailers/operators and distributors

Brokers/wholesalers/distributors who manage manufacturers' programs

Retailers, dealers, and operators who utilize trade promotion programs

Service firms and advertising agencies who support the co-op industry

Media organizations who leverage trade dollars through co-op advertising

Our members benefit from being able to network with other **Marketing, Sales, Finance,** and **Operations Executives** across industries to share best practices and strategies in a non-competitive environment.

For more information, please contact:

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Acronym Key and Glossary Terms

Accrual

An allowance accumulated by manufacturers or suppliers of co-op and other trade allowances for their retail and /or wholesale customers, generally calculated as a percent of the invoice price of products sold to the retailer or distributor. Can be based on current year's purchases, or prior years.

ACV (All Commodity Volume)

ACV is a general measurement of the extent to which a product is available to consumers. To calculate for a particular Schooner must first determine all of the retail stores in which the SKU is offered. The stores are then weighted based on their total sales (a.k.a. "all commodity volume").

Ad Slick

Reproducible artwork which is used as a master in the offset printing process.

Advertising Allowance

A payment or service by a manufacturer of goods to a merchant for advertising a product of the manufacturer.

Agency of Record

An agency that purchases media time or space for another agency or a group of agencies who happen to serve the same client.

Allowance

A temporary price reduction or discount offered to the retailer by the manufacturer. Sometimes given in the form of free goods, like one case free with twelve.

Banded Pack

Two or more packages are banded together and sold at a reduced price. The packages can be the same or related products

Barter

The furnishing of products by and advertiser as full or partial payment for broadcasting time or free mentions on television or radio. Time so purchased is called barter time, and its purchase is usually arranged by a broker.

Benchmarking

The process by which companies, following pre-established guidelines for disclosure, share best business practices with other companies. Generally focusing on one aspect of business (credit procedures, distribution procedures, etc.) it has been popular in the trade allowance industry as well.

Billback Allowance

A merchandising allowance in which the discount is not given to the retailer until he provides proof he has complied with the merchandising requirements of the seller.

Brand Development Index

A measure of the concentration of a brand's consumption; typically, the units or dollars of a product consumed per thousand population in a year's time.

Brand Image

The pattern of feelings, associations, and ideas held by the public at-large regarding a specific brand.

Break Even Calculation

A technique to determine the absolute or percent sales increase needed to pay for the cost of a promotion:

- Total cost known Divided by margin per case Equals total volume needed
- Unit costs known Divided by margin per case Less base volume Equals incremental volume needed

Broker

An agent in the purchase or sale of goods; as the agent of a seller, especially of packaged goods, serves to supplement or supplant the seller's sales force in return for a commission.

Cannibalize

To draw sales away from another product of the same manufacturer in a manner diminishing the maker's profit; said of new competitive products, flanker items or line extensions.

Case Allowance

An allowance by a manufacturer to a retailer. The allowance is proportional to the number of cases purchased, either continuously or in increments.

Case-Count Method

A form of acceptance of a wholesale delivery by a retailer on the evidence of the number of cases listed in an invoice rather than after a physical count of cases delivered.

Case Rate

A figure used commonly to indicate the marketing expenditure behind a brand by showing support per case sold. A brand's case rate is determined by dividing its total annual marketing budget (advertising, promotion, etc.) by its total case volume.

Category Killer

A specialty retailer who dominates a category of merchandise such as computers or do-it-yourself outlets.

Channel

The pipeline that gets product from the manufacturer to the end consumer. This can include distributors/wholesalers and retailers (as well as aggregators and VARs in the computer industry). Also refers to a specific type of retail distribution. Mass merchandise, food, drug, specialty, and warehouse distribution are examples of channels of distribution.

Co-operative Advertising

Advertising run by a local advertiser in cooperation with a national advertiser. The latter usually supplies the copy, plates, or reproduction materials; the two share both the cost and the mention of their names.

Cooperative Merchandising Agreement

A contract between a manufacturer and a retailer or wholesaler in which the manufacturer agrees to pay for specified merchandising services, such as featuring display, price reduction, etc.

Cost Per Return

A measure of the effectiveness of a communications medium in promoting a sales offer, contest, coupon promotion, etc. that invites a direct response from the public; computed by dividing the advertising/promotion cost involved by the number of returns.

Coupon

A certificate with a stated value (in money or merchandise) which the customer presents to a retailer to entitle the customer to a savings on a specific item at the time of purchase.

Dead Net Pricing

Is that price to the trade which is based on maximum quantity discount when the off invoice, merchandising allowance and .or price pack value has been applied to the trade cost. It is typically expressed per single unit of product.

Deal

A temporary promotional offer to sell goods under terms which vary from the customary terms in a manner which favors the buyer.

Dealer Listing

A listing of local dealers added to an advertisement used over a large geographical area. Such a listing can be varied by state, metropolis, or region when an advertisement is run nationally, depending on the publication's capability to produce such local editions.

Deduction

Generally an unauthorized reduction taken to the invoiced amount a manufacturer or supplier bills a customer. Often taken by customers who feel they have qualified for advertising or promotional allowances that have not been paid by the manufacturer or supplier. When taken, these unauthorized deductions create a tremendous administrative burden to resolve and cost both the supplier and the retailer unnecessary expenses in time and money.

Direct Store Delivery

A delivery of merchandise from a manufacturer directly to a retailer rather than via a warehouse or wholesaler. Also drop shipment, store door delivery.

Display

A physically contiguous arrangement of goods for advertising, possibly with decorative material, intended to call attention to and prompt the sale of a product or service. Also used as a verb when referring to the act of erecting a stack of products in a selling area.

Display Allowance

A merchandising allowance granted to retailers in return for displaying merchandise, usually in special areas of the store in addition to regular shelf position.

Distribution

The extent to which dealers carry a retail item; usually measured by either the percentage of all dealers who carry the item, or by the percentage of the total volume of business done by those who carry the item. The means by which a manufactured product reaches the customer including storage, transportation, sales, etc. and the way these elements are organized.

Distribution Allowance

A discount made by a manufacturer to a wholesaler or store chain to cover the cost of distributing a product, especially for the first time. Care must be exercised to prevent price discrimination, a violation of the Robinson-Patman Act.

ECR

Efficient Consumer Response. A term used in the food industry for maximizing efficiency in moving products from the manufacturer through the distributor and retailer to the ultimate consumer at the lowest cost.

EDLP

"Every Day Low Prices." A term used, primarily in the food industry that suggests the manufacturer is offering no advertising or promotional allowances on the products so identified.

End Aisle Display

A special retail store display in which the promoted product is prominently positioned at the end aisle gondola location.

Fair Trade

A principle according to which retailers agree to sell an item at no less than the price agreed upon between the manufacturer and other retailers in the area. Until suspended, such practices were often enforced by a state law (fair-trade law).

Feature

1. A retail item being given special sales attention, especially cooperative advertising of a price reduction.
2. An important characteristic of a product or service.
3. To give a retail item special sales promotion.

Federal Trade Commission

The government agency responsible for enforcement of the laws that apply to co-op and other promotional allowances. See [The Robinson-Patman Act](#) and the [Guides for Advertising Allowances and Other Merchandising Payments and Services](#).

Free Standing Insert (FSI)

A preprinted advertisement in single or multiple page form that is inserted loose into newspapers, particularly Sunday editions and supplements.

Fulfillment

The processing of consumer requests for mail-in (or phone-in) offers such as refunds, premiums, coupons or samples.

Gross Rating Point

A unit of measurement of audience size for television, radio, or outdoor advertising, equal to 1% of the total potential audience universe; used to measure the exposure of one or more programs or commercials, without regard to multiple exposure of the same advertising to individuals. Also, the product of media reach times exposure frequency. Abbreviated G.R.P.

Group Promotions

A promotion involving several brands from the same or different companies, usually integrated by a theme or mutually shared promotional overlay like a sweepstakes or refund.

Guides for Advertising Allowances and other Merchandising Payments and Services

Interpretations by the [Federal Trade Commission](#) (FTC) of the provisions of [The Robinson Patman Act](#), the laws that governs co-op and other promotional allowance payments.

Instant Redeemable Coupon

A coupon placed on the outside surface of the package. The coupon can be removed easily without destroying the package and used as a price reduction on the current purchase.

In-Ad Coupon

A coupon placed in a store or chain's own retail advertisement, redeemable on the specified product only at the particular store or chain. Also in-ad.

Incentive

Cash, merchandise or travel offered to consumers, salesmen or dealers as a tangible reward for a purchase or sales performance.

Insert

A special page printed by the advertiser and forwarded to a publisher who binds it in the publication. Also, an advertising tabloid placed inside a newspaper. (see free standing insert).

Invoice

A bill sent to a customer for merchandise shipped to him. It lists quantities, brands, prices, and date of shipment.

Line Extension

A new product form, flavor or formulation marketed under an existing brand name, intended for use in the same category as the "parent" brand's original product, or product line, while being designed to draw new users to the brand's franchise from products competitive to the original product; e.g. "dry" and "oily" new shampoo products using the brand name of an existing shampoo are line extensions. Cf. flanker, brand extension.

Logo

The artistic rendition of a brand name on a package. Also used in promotion materials.

Loss Leader

A retail item advertised at an attractively low price, often below cost, in order to attract customers to a store for the purchase of other, more profitable items.

Market Development Funds (MDF)

Advertising and/or promotional funds provided by manufacturers/suppliers to their customers that are offered to meet specific marketing objectives. Often requiring less complete proof of performance documentation than traditional co-op allowance programs, these funds are generally negotiated by a company's sales force with their customers to meet competitive offers, respond to customer's "vendor programs," or to target funds to a specific geographical area or product emphasis. The laws regarding trade allowances, The Robinson Patman Act, apply to MDF programs, so a review by a company's legal counsel is suggested before this type of program is implemented.

Market Development Index

The number of units or dollar value of all brands of a product or service category that have been sold per thousand population within an area in a stated period (usually a year). Also category development. Loosely, a product's, service's, or category's degree or rate of usage in markets and market segments to which it is available.

Market Share

The percentage of a category's sales, in terms of dollars or units that is accounted for by a brand, line, or company.

Marketing

The act of taking a product and moving it from its place of manufacture to the ultimate user at a profitable price. Includes development, design, packaging, advertising, promotion, pricing, selling, and delivery.

Marketing Mix

The levels and interplay of the constituent elements of a product's or service's marketing efforts, including product attributes, pricing, promotion, advertising, merchandising, distribution, and marketing spending, especially as decisions relating to these elements affect sales results.

Markup

The increase, in either dollars and cents or a percentage, between cost and the selling price.

Medium

Any vehicle used to convey an advertising message, such as television, magazines, newspapers or direct mail. Also, the methods and tools used by an artist, such as a pen and ink, crayon or photography.

Merchandising

1. Marketing activities, including sales and promotion, designed to make product available, attractive and conspicuous in a retail store
2. Solicitation of salesman and retailer support for a marketing effort

New Item Slotting Allowance

An allowance offered by manufacturers to motivate the trade to stock a new item. This allowance is based on absolute total dollars, not a per case rate.

New Product

A product which has been in distribution, available to its ultimate consumer, for less than six months. Also, a product bearing a new brand name, or a newly introduced flanker item or line extension; occasionally used loosely to refer to an improved product an exiting brand, or new size.

Off Invoice

A deduction from an invoice from a manufacturer or wholesaler to a retailer normally made in exchange for the retailer's promotional efforts. Also off invoice allowance or deal.

Out of Stock

Refers to a condition where something that is normally sold is presently not available, especially for retail sale, because of inadequate supply, or insufficient distribution support.

Packaged Goods

Products wrapped or packaged by the manufacturer, normally of uniform sizes. Items are used broadly and frequently consumed; typically sold through food, drug, and mass merchandiser retail stores.

Performance Allowance

A rebate of a portion of the purchase price of goods provided to those retailers who agree to perform cooperative merchandising services such as advertising or display; paid after the retailer provides proof of performance.

Plan-o-gram

A valuable merchandising tool used by manufacturer's salespeople to present a product category shelf space allocation recommendation to the trade for their stores. Designed to insure that a manufacturer's product is getting a fair share of store space.

Point-of-Purchase

The place at which a customer encounters a retail item that he or she may buy. Also point-of-sale, P-O-P, P-O-S.

Position

In marketing strategy, the consumer perception of a product's or service's benefit or benefits, in comparison to its competition, which its manufacturer attempts to create and encourage via advertising, packaging and/or promotion. Also, the placement of an advertisement in a publication in terms of page number, side, etc., or of a commercial in a program. Also positioning.

Preprint

1. A printing of periodical advertising on separate sheets before actual publication; done by an advertiser for special purposes, e.g. to serve as retail displays or in order to merchandise his advertising support to retailers.
2. A color newspaper advertisement (e.g. spectacolor printed on one side of rotogravure stock which is then supplied pre-trimmed to the newspaper, which does its own printing on the opposite side.

Private Label

1. A wholesaler's or retailer's label bearing its brand name.
2. Prize Reward given to winner in a contest, sweepstakes or chance promotion; also sometimes refers to salesmen's incentive award, and official state lottery awards.

Promotion

1. A marketing tool that is a temporary effort to create extra interest in the purchase of a product or service by offering values in excess of those customarily afforded by such purchases; includes temporary discounts, allowances, premium offers, coupons, contests, sweepstakes, etc. Also sales promotion.
2. Loosely, any effort to encourage the purchase of a product or service.

Promotion Allowance

A rebate or discount offered by a manufacturer or his agent to a wholesaler or retailer who agrees to promote the product purchased under allowance. Also merchandising allowance.

Promotion Marketing

An element in the marketing mix designed to stimulate consumer actions and/or dealer effectiveness through various incentives.

Promotion Strategy

A statement of how a marketer plans to meet defined, measurable objectives or goals.

Proof-of-purchase

Evidence that a consumer has purchased a product or service, as a receipt, label package or portion thereof, etc.; usually specified by manufacturers as appropriate evidence of product purchase in compliance with the terms of a mail-in offer. Often abbreviated as POP's.

Return on Investment (ROI)

A term used to describe how a company measures the gains from expenditures. For co-op advertising and other trade allowance programs, measuring ROI has becoming an area of growing concern. The large budgets devoted to these programs has caused most companies today to develop some form of measurement to determine the results obtained for the dollars spent.

Robinson Patman Act

The laws that govern co-op and other promotional allowance programs. Enforced by The Federal Trade Commission (FTC) this Act has been interpreted in the Guides for Advertising Allowances and other Merchandising Payments and Services, sometimes known as the "Meyer Guides."

Rotogravure (Roto)

A form of printing where the image is chemically etched upon a copper cylinder. Most Sunday magazine supplements are printed by the roto-gravure process on various grades of coated paper. Also refers to special color circulars run by retail accounts to highlight special product savings.

Run-of-Press

The status of an advertisement positioned at the publisher's discretion. Also, run-of-book, run-of-paper. Abbreviated R.O.P.

Sales Incentive

A reward in excess of salary or commission provided to a salesperson in return for achieving or exceeding a stated sales goal. See Sales Contest.

Sarbanes-Oxley Act - Section 404

An interpretation of the pertinent sections of this Securities and Exchange Commission Act that to provide guidance for manufacturers in tracking, reporting, and evaluating financial transactions that make up the foundation for the legal and formal reporting to shareholders and the public in general.

Share

1. The percentage of total retail purchases, in terms of dollars or units, for a given category of product that is enjoyed by any one brand in that category. Also share of market, share of retail sales.
2. In a rating survey the percentage of the television or radio audience in a coverage area that is tuned to the program being rated.

Shelf

1. A retail store's physical facility for displaying products above the floor in areas open to customers; usually, a long, narrow series of six or seven horizontal tiers.
2. In current availability, as off-the-shelf.

Shelf Space

The amount of point-of-purchase space occupied by a type of merchandise in a retail store; measured in terms of square feet, linear feet, or number of facings.

Slippage

1. Those people who purchase a product with the intent of claiming a promotion reward for such a purchase (e.g. send for a refund, or premium, or redeem a coupon), who fail to fulfill this intent.
2. The ratio between such purchases, and purchases by those people who claim such a reward; usually stated as a percentage of total purchases. Also slippage rate.

Slot

Describes a physical space in a trade warehouse used to store product or price variation.

Space Allocation

The amount of shelf space allotted to a product or group of related products in a retail store.

Special Purchase Allowance

An allowance granted by a manufacturer or wholesaler to a retailer, made in addition to a basic merchandising allowance for the purchase of goods within a stated period. Abbreviated S.P.A. (Must be offered to all competing retailers.)

Spiff

A special reward given by manufacturers or service sources to agents' or dealers' employees, for encouraging the sale of their own goods rather than a competitor's; usually paid on each sale, regardless of whether it is pushed or not. Also known as Push Money.

Stock Keeping Unit (SKU)

Most used in the grocery channels, but being used more in other channels as well, this refers to a "line item" or a specific version of a product carried by a retailer or distributor. The item is most often assigned a Universal Price Code (UPC) to distinguish it. SKU's can refer to anything from a specific size of a bottle of aspirin to a specific type and size of photographic film.

Supermarket

A large, departmentalized self-service food store, often with a large variety of non-food items; a warehouse supplying the store regularly and a large parking lot for patrons are generally regarded as characteristics of a true supermarket. Some industry sources reserve the term "supermarket" for stores whose annual All Commodity Dollar Volume is \$1MM or more.

TPMA

The Trade Promotion Management Associates. The only trade association in the U. S. devoted to educating those involved with the creation and implementation of co-op advertising and other trade allowance programs and related supply chain integration. Formed in 1989, TPMA has grown to include over 100 major corporations, retailers, distributors, service and media firms. The Association conducts an annual industry conference in the Fall, and an executive sales & Marketing event in the Spring. Mike Kantor is the Managing Director mkantor@tpcww.com

Target Market

A group of the population which is believed to hold the greatest sales potential for the product. The advertiser often tries to isolate media which reach the target market and designs messages which communicate with its members.

Tearsheet

An unbound page from a periodical showing an article, advertisement, etc. as printed; used as a proof or as an extra copy.

Two-for-one or BOGO

A promotion that offers consumers two units of product for the price of one.

Universal Product Code (UPC)

A special code number and striped visual code on the package which is used by optical scanners at checkout counters to automatically record the brand and its price.

Volume Merchandising Allowance

An allowance offered to a retailer for the purchase of large volumes of goods; offered as an encouragement to the retailer to merchandise the goods aggressively. Abbreviated V.M.A. See quantity discount.