



Benchmarking Initiative: *Trade Promotion Management*

Summary Results

October 9, 2007

Agenda

Benchmarking Overview

Participant Profile

Benchmarking Comparison

Scorecard & Summary Results

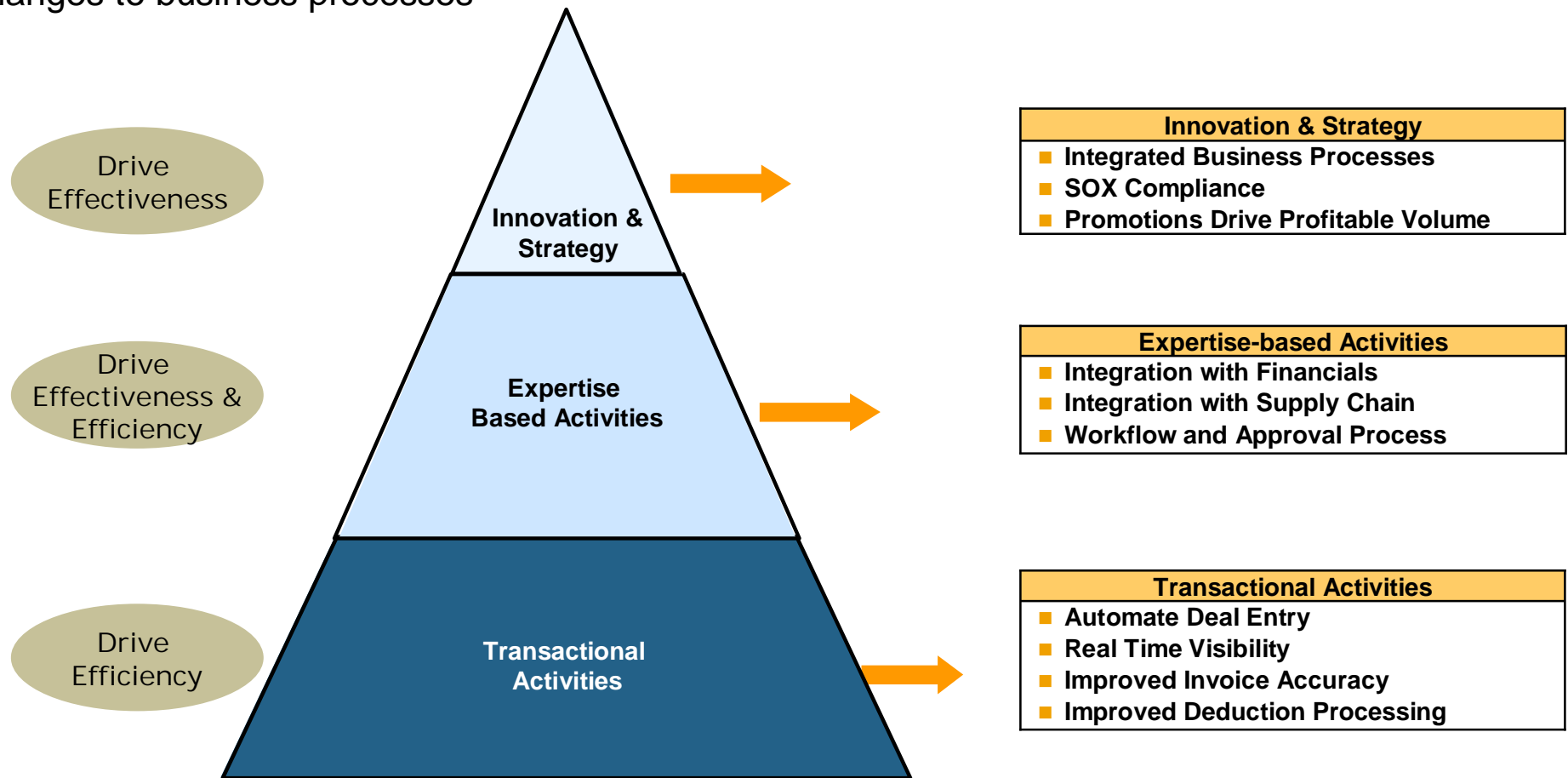
Trade Promotion Management (TPM) Study Objectives

In 2007, TPMA and SAP agreed to jointly conduct a benchmarking study in Trade Promotion Management (TPM). To date, over 30 companies have participated to help identify:

- How do **Best In Class companies** measure up on Trade Promotion metrics?
- Which **Best Practices** are considered most important by your peers?
- How does the **adoption of Best Practices** impact Trade Promotion Management efficiency and effectiveness?
- How much do Trade Promotions **impact Top line and bottom line**?
- **How is information leveraged** to drive improved efficiency and effectiveness?

Study Scope

The benchmarking study included analysis of **key Trade Promotion Management business processes**. These processes were classified under three categories. Transactional functions are mainly driven by cost and efficiency. Expertise-based Activities drive organizational effectiveness and efficiency through process improvement. Innovation and Strategic Activities drive fundamental changes to business processes



Benchmarking Data Captured

Dimensions of Analysis



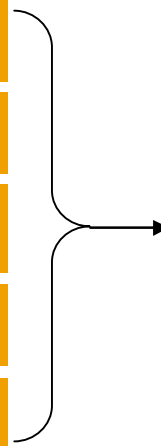
Staffing

Cost

Process performance

IT

Best Practices



- . **Over 25 Key Performance Indicators:**
- . **Function independent KPIs**
 - Promotion spend as a % of revenue
 - # of Trade promotions per year
- . **Function specific KPIs**
 - ROI / Profitability of promotions
 - ACV performance
 - % Legitimate deduction balance
- . **Service Level KPIs**
 - Invoice accuracy rate
 - % Out Of stock during promotions
- . **Technology usage and adoption**
 - Application usage
 - Degree of implementation
 - Usability/ adoption
- . **Over 20 Best Practices**
 - Measuring impact on Volumes
 - Measuring impact on profitability
 - Managing promotion spend
 - Identifying & replicating success

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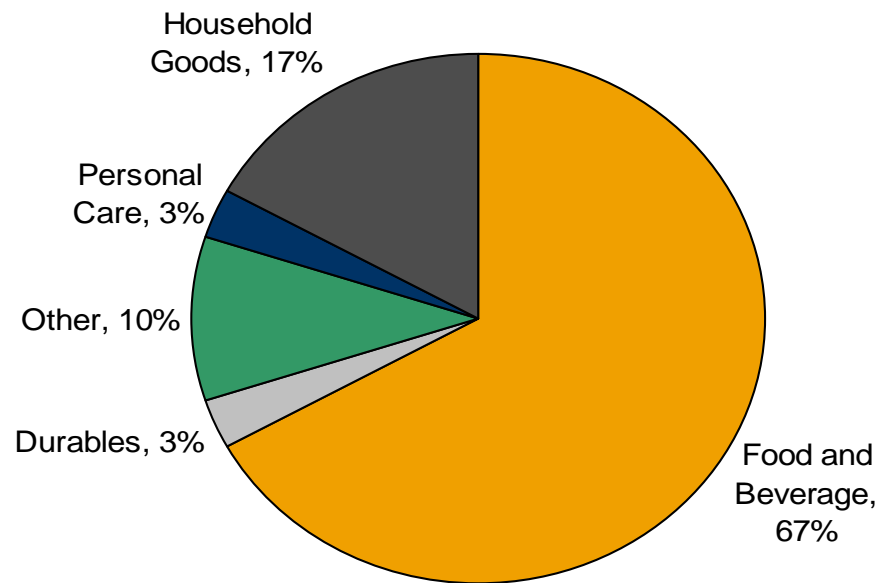
Participant Profile

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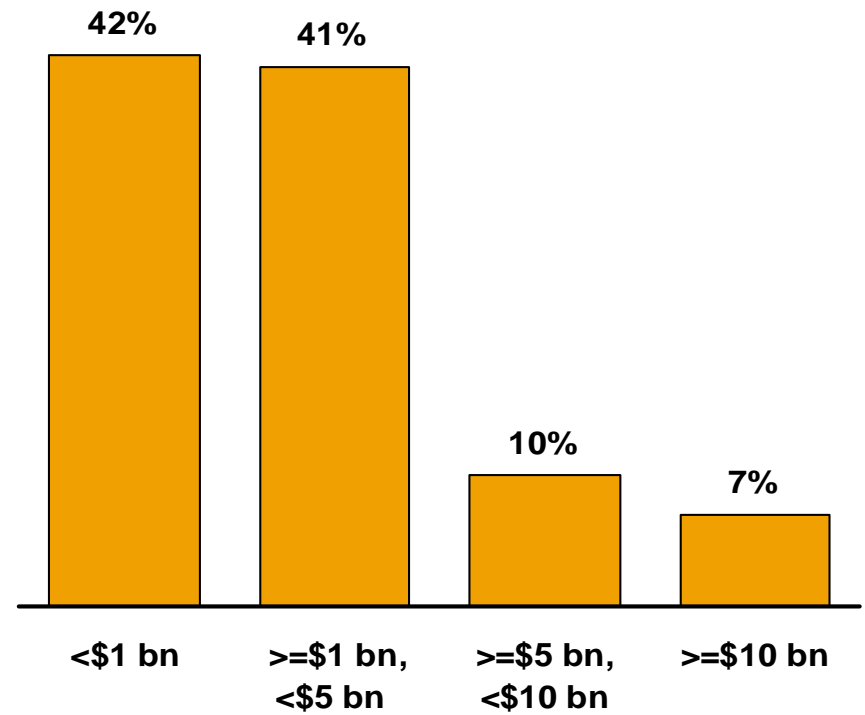
Scorecard & Summary Results

Industries and Sizes

By Industry Sector



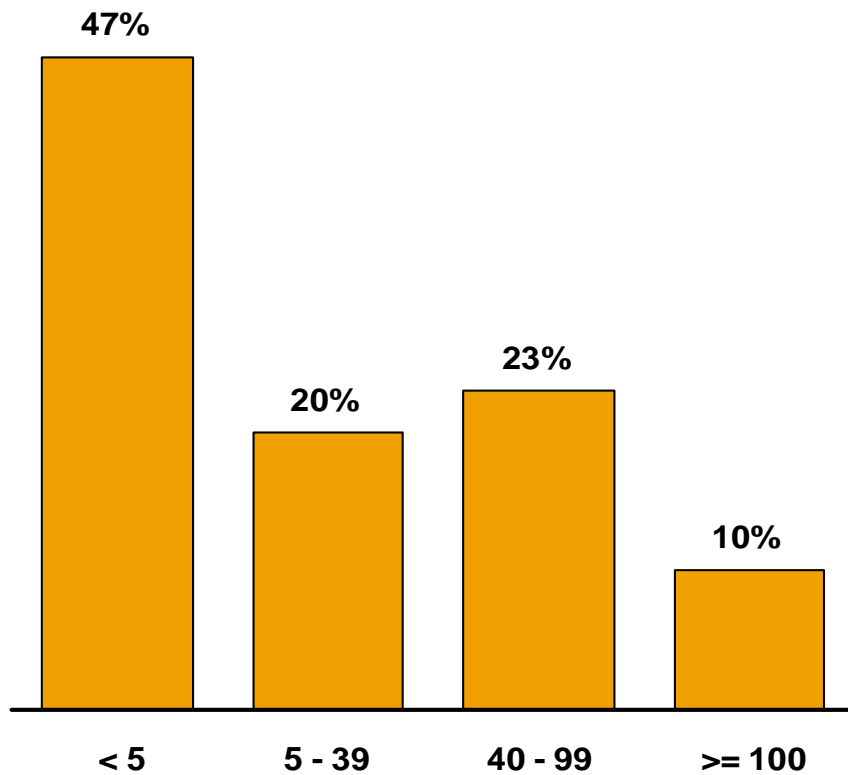
By Revenue



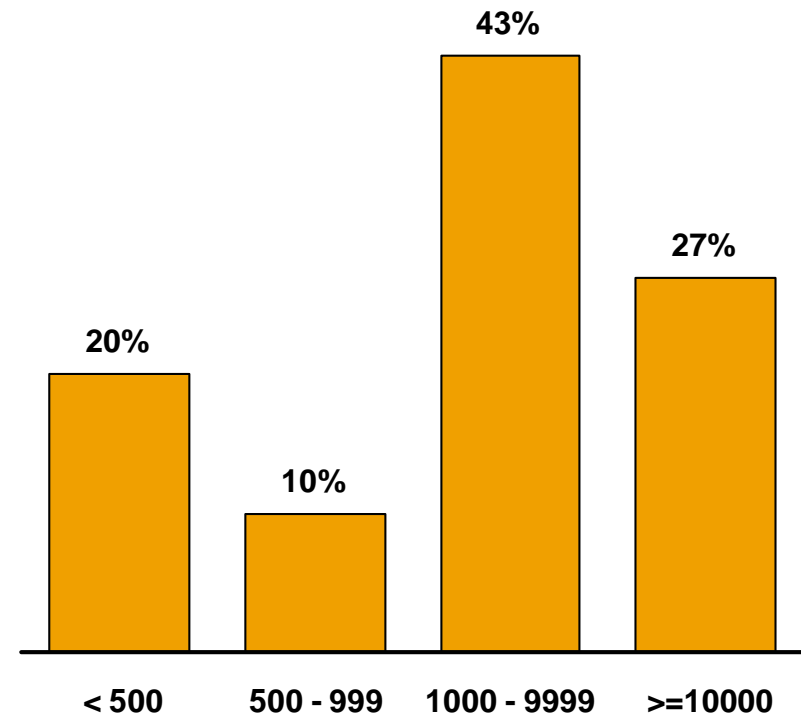
Source: Participant Responses, SAP Analysis

Organizational Scale

Number of countries in which company operates



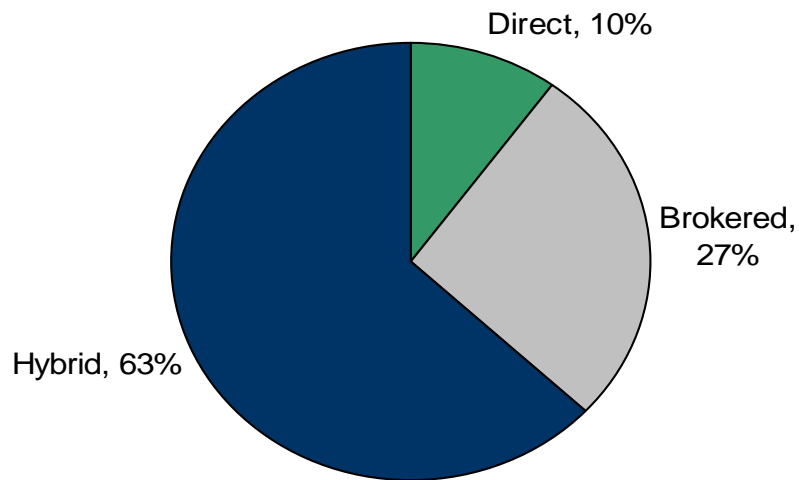
Number of employees



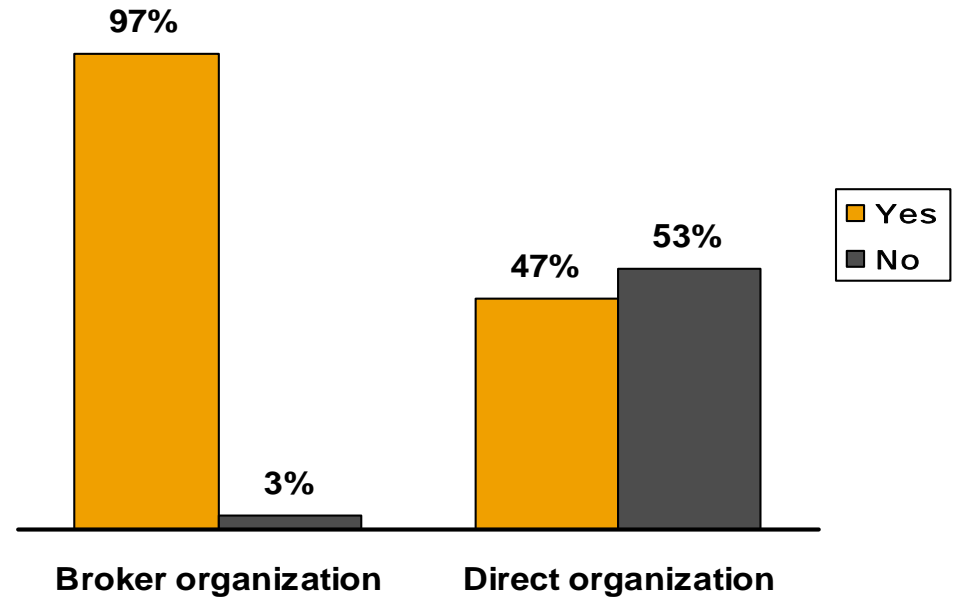
Source: Participant Responses, SAP Analysis

Sales Force

Model of Sales force



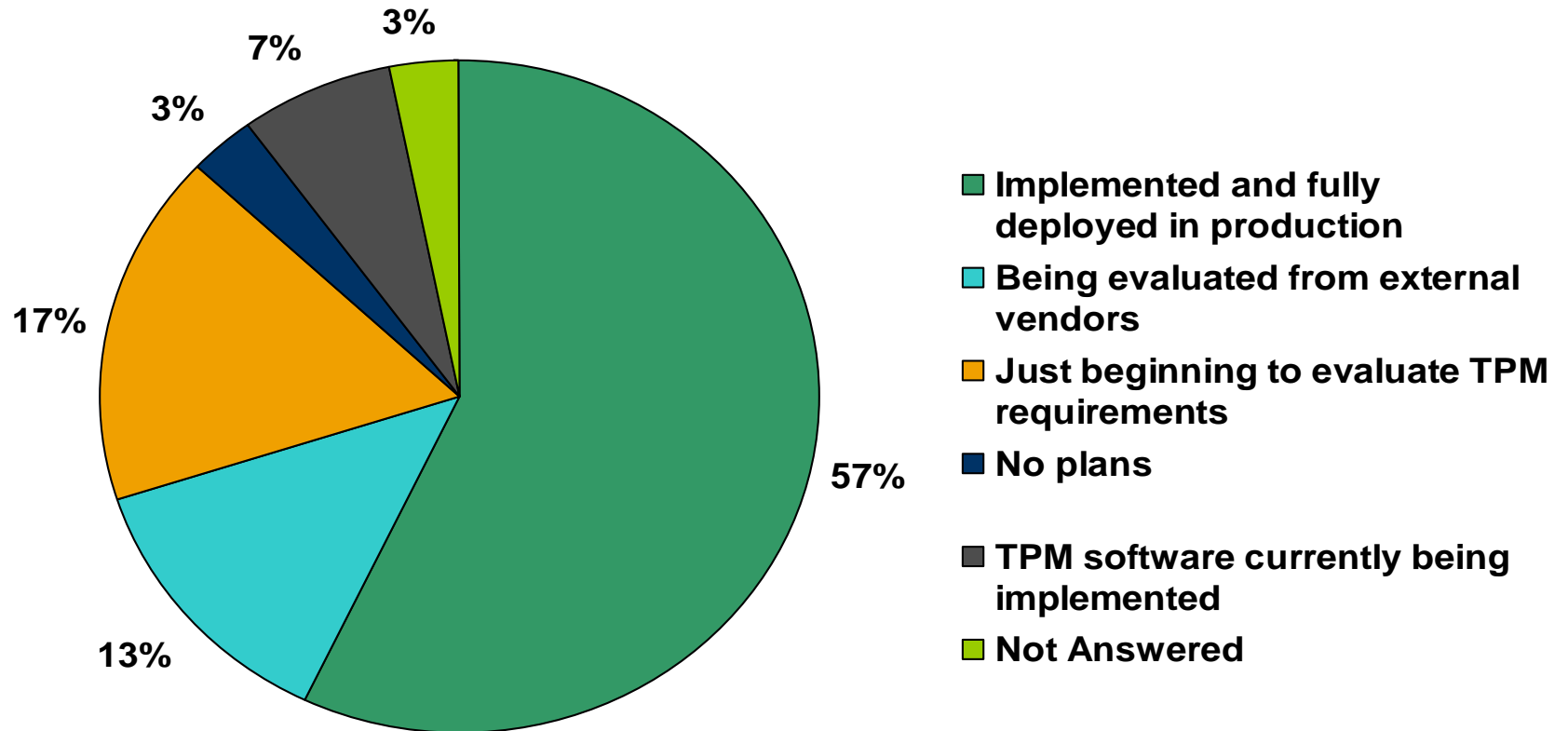
Sales Force for Store Execution



Source: Participant Responses, SAP Analysis

Information Technology used for TPM

Level of TPM software usage

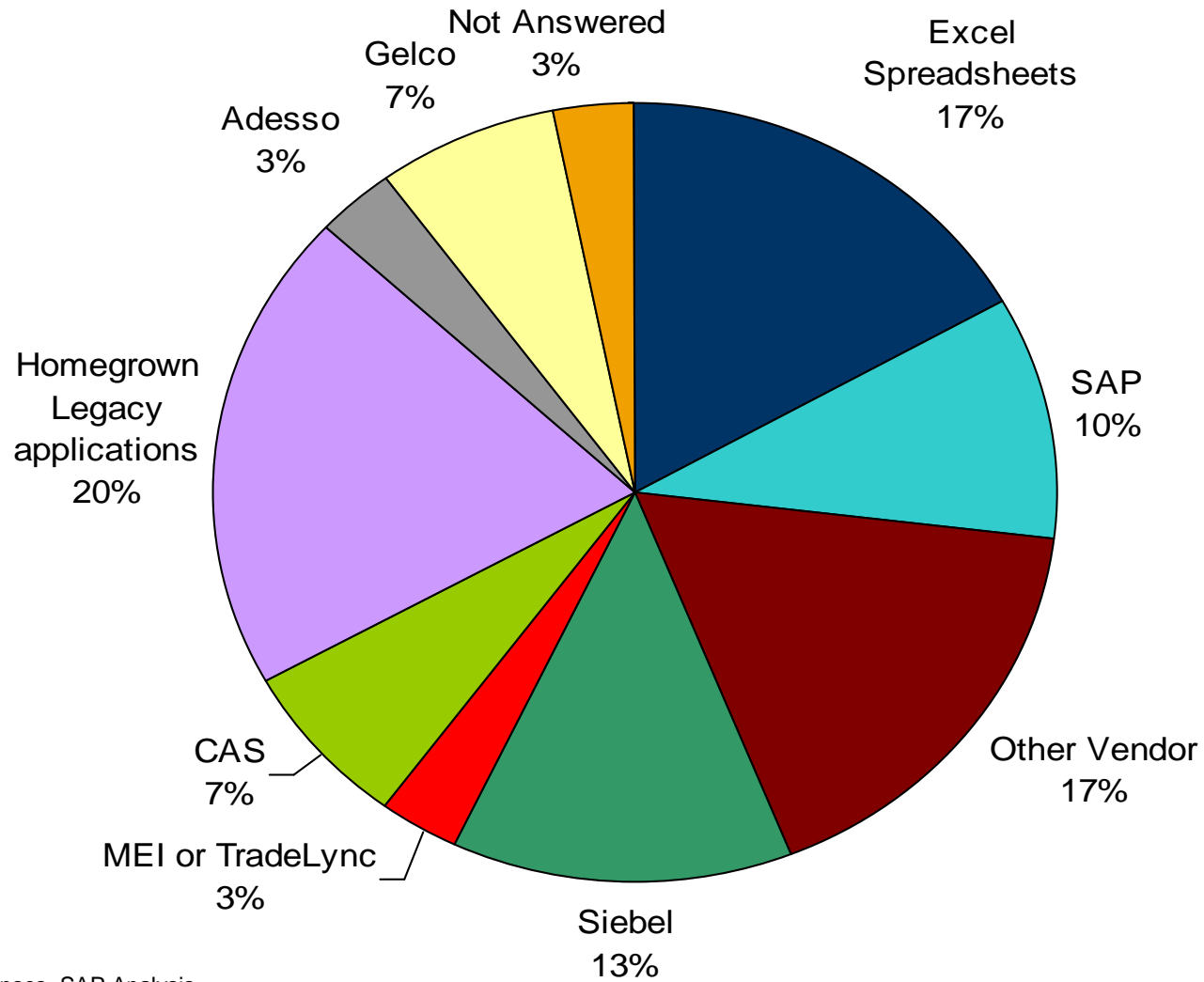


Source: Participant Responses,
SAP Analysis

The level of TPM Software usage in this TPMA/SAP Benchmarking Survey is higher than other recent TPM studies. This is believed due to a high percentage of TPMA members participating in this survey and their proactive approach to TPM and technology.

Information Technology usage by Vendor

Applications Used To plan and execute Trade Promotion Management



Source: Participant Responses, SAP Analysis

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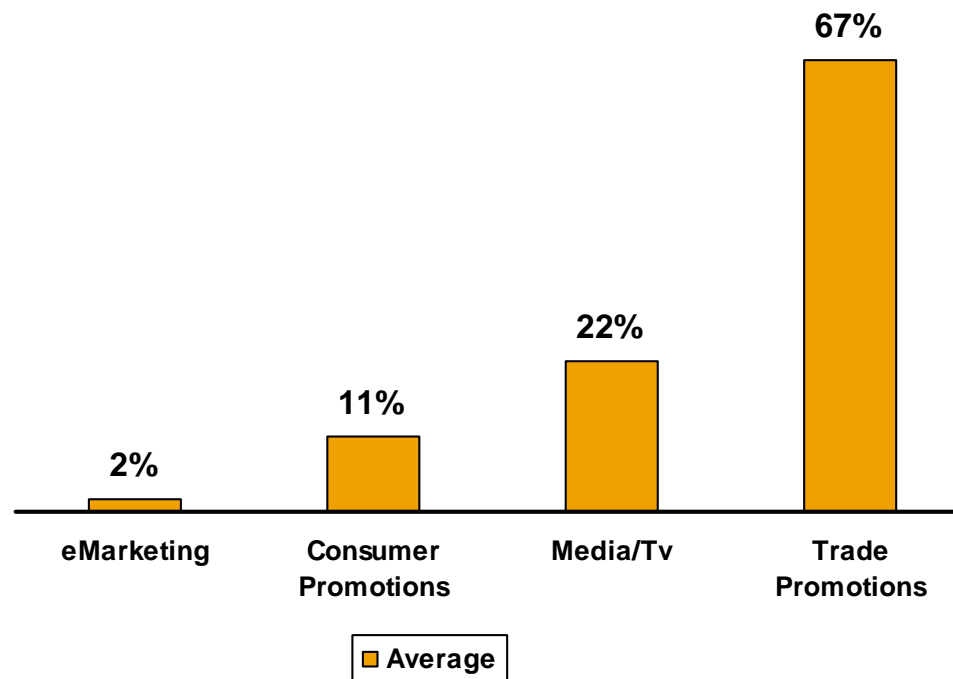
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2007 Marketing Spending

Average Breakup of Promotion Spend

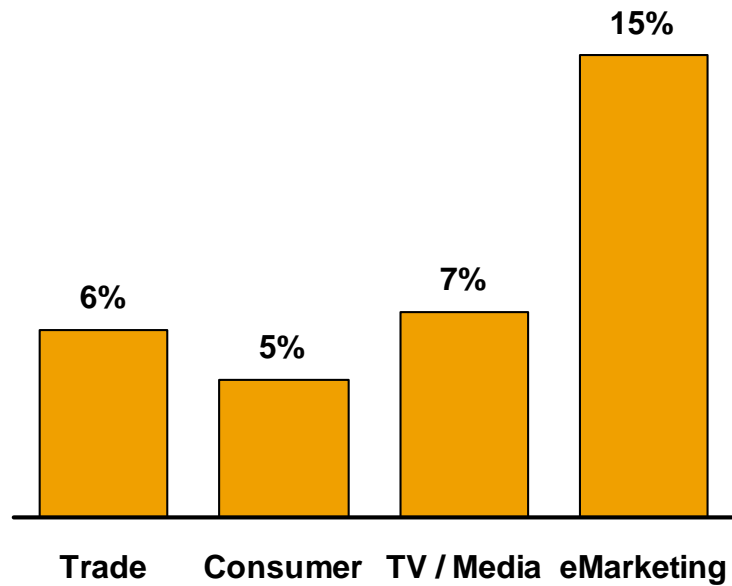


Source: Participant Responses, SAP Analysis

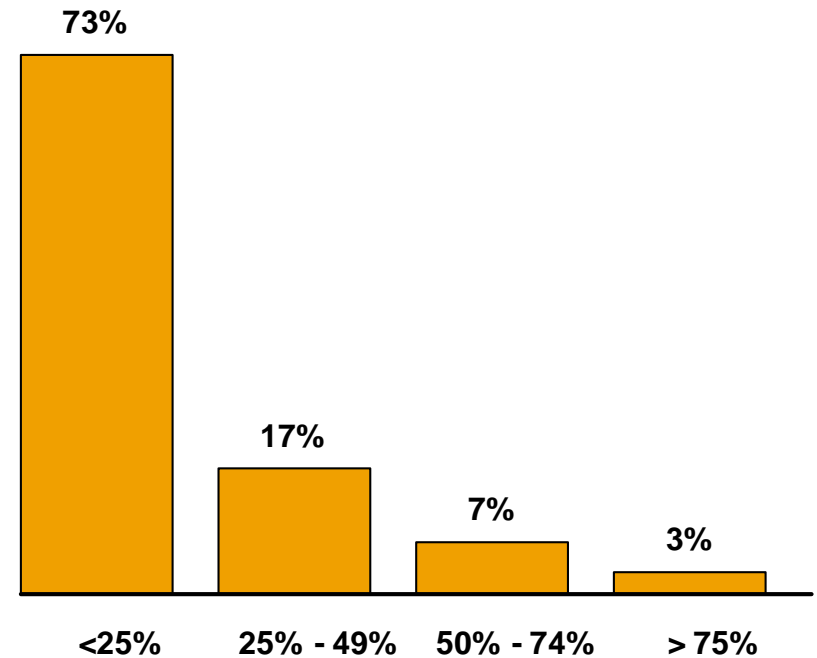
The breakup might not add up to 100% due unavailability of data across 4 areas for all respondents.

Current Spending Trends

Change in Promotion Spends (2007 vs 2006)



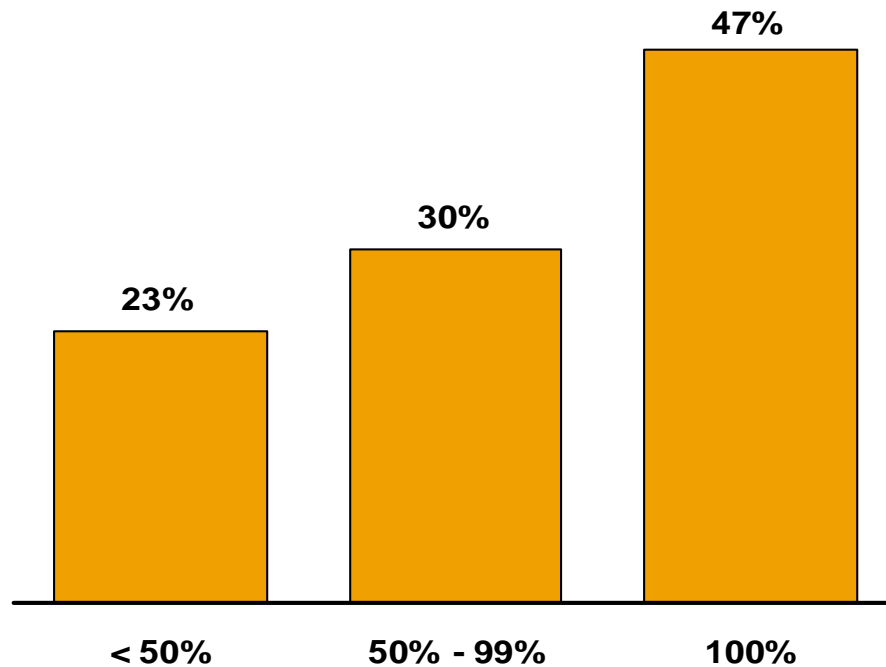
Desired % of Annual Trade spend to be redirected to Consumer / Media



Source: Participant Responses, SAP Analysis

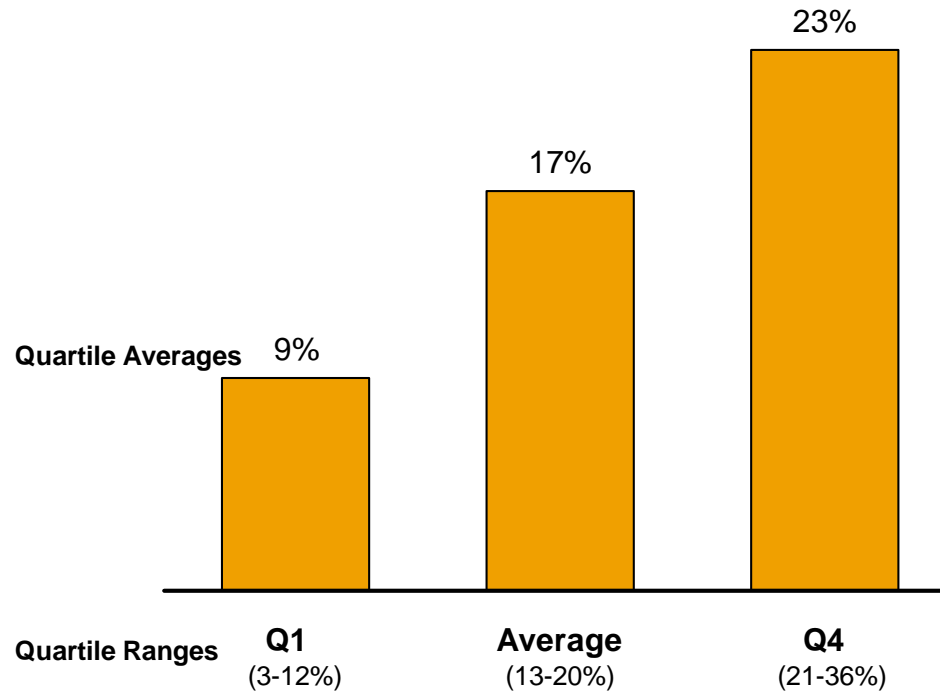
Company Revenue that utilizes Retail Trade Promotion Spending

% of Products for which Trade Promotions are conducted



Trade Promotion Spending Rates

Trade Promotion spend as a % of Revenue

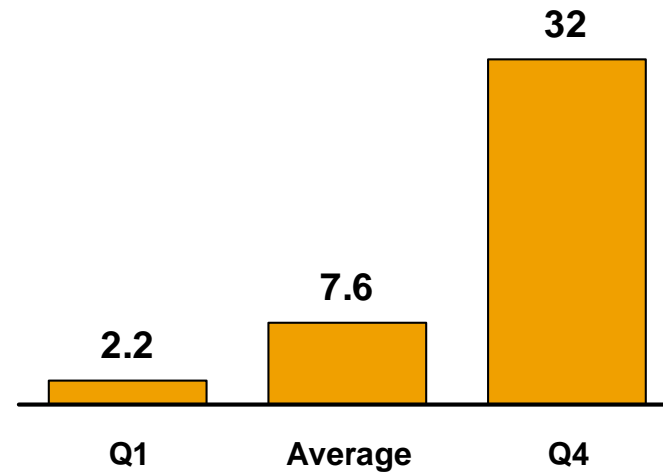


- 70% of Consumer Products companies spend less than 16% of their revenues on Trade Promotions
- Range of Trade Promotion spend (as a % of revenues) by Consumer Products companies varied from 3% to 36%

Q1 = Top Quartile; Q4 = Bottom Quartile

Employees Required to Administer TPM

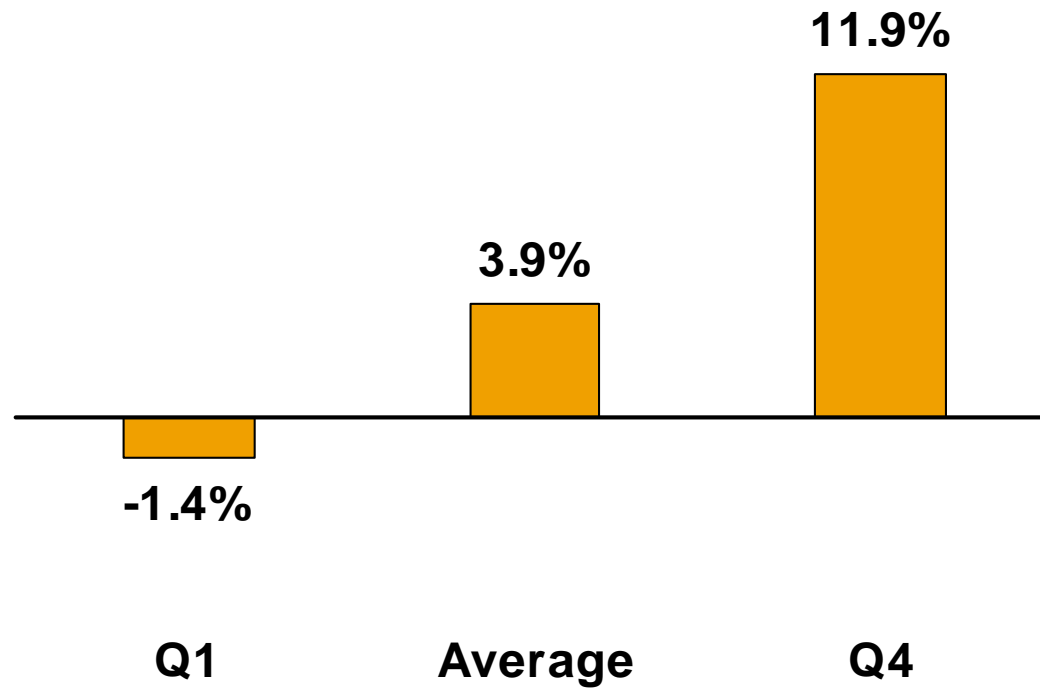
FTEs involved in Trade Promotion Management per 100 Million Dollars of Trade Promotion Spend



FTE = Equivalent full time employees per \$100M in trade spending. This effectively represents the collective sum of all company employees involved with trade spending, either full or part time, in areas such as Trade Marketing, Finance, Sales, Management or Brand Marketing. It does not include external sales agents or brokers.

Trade Promotion Fund Overspending

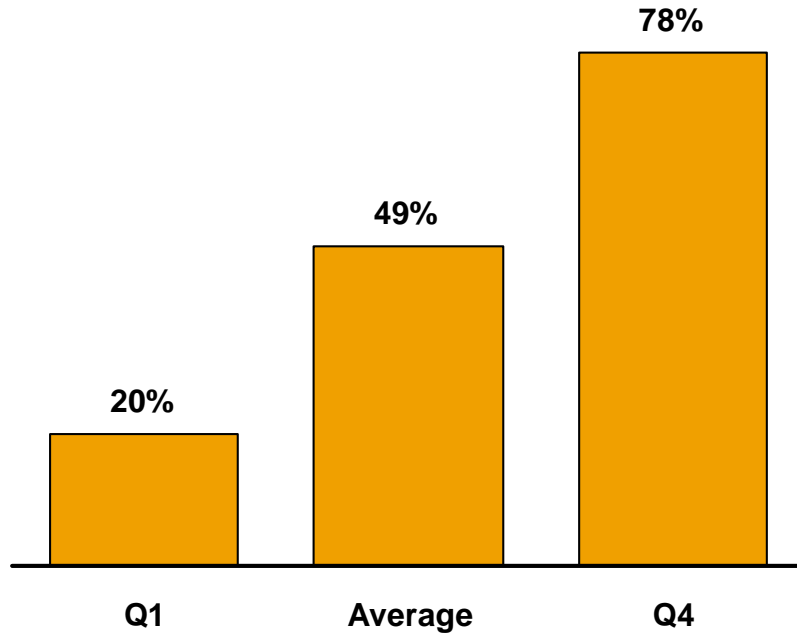
Average Annual fund overspend



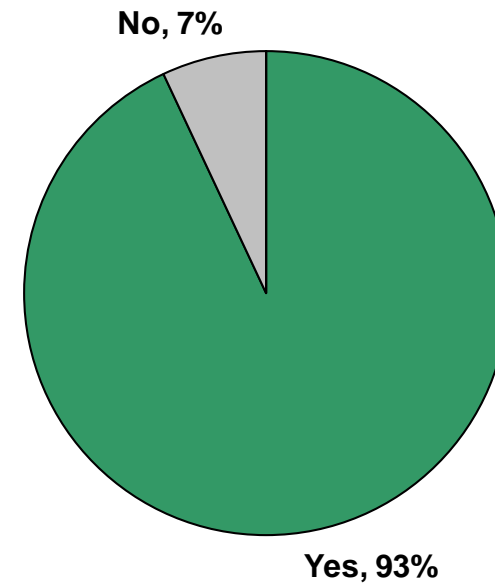
Q1 = Top Quartile; Q4 = Bottom Quartile

Trade Promotion Influenced Sales

% of Annual Product Sales sold on Promotion



Seasonal Promotions Repeated Every Year

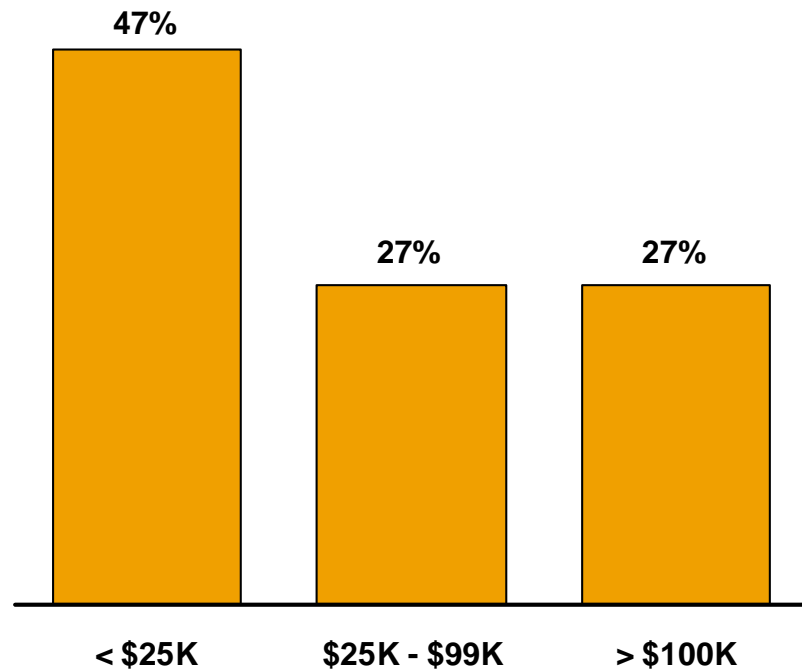


Source: Participant Responses, SAP Analysis

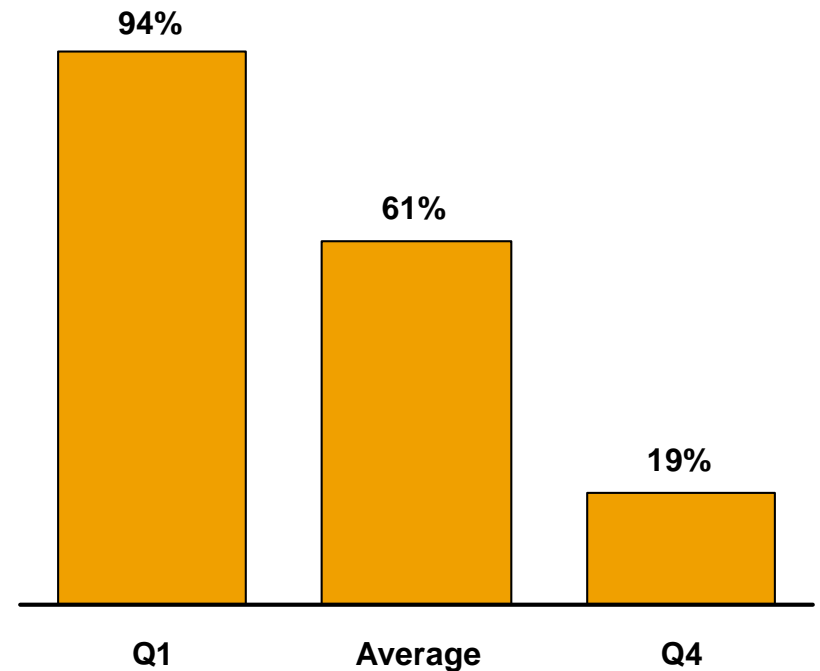
Q1 = Top Quartile; Q4 = Bottom Quartile

Trade Promotion Results

Dollar Spend per Trade Promotion



Proportion of Promotions resulting in Incremental Volume

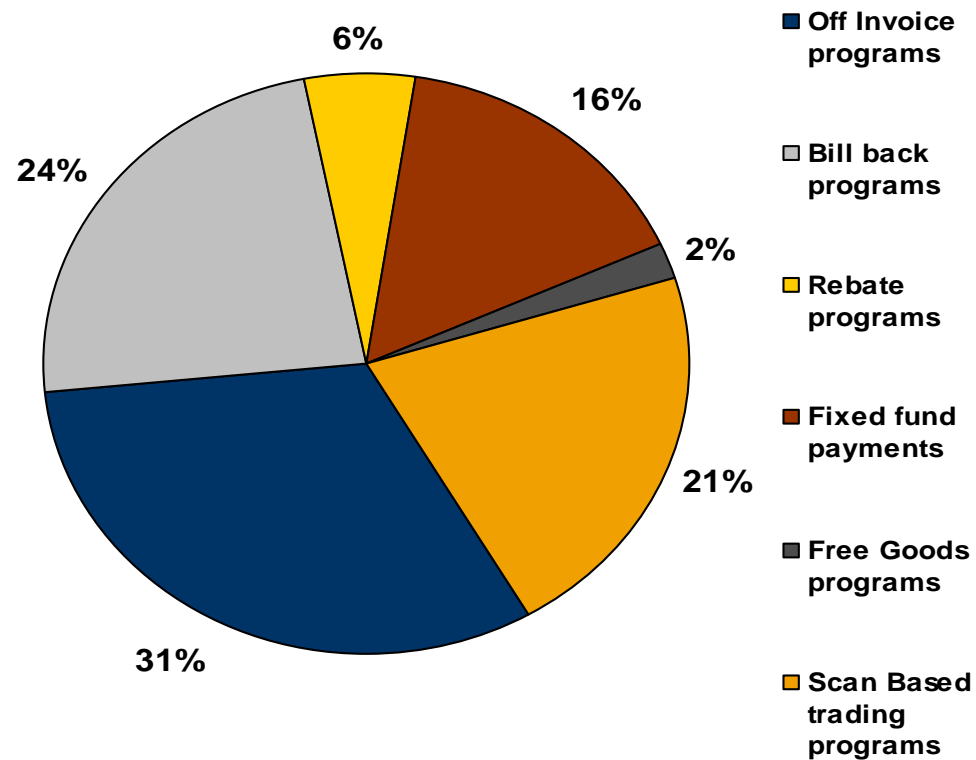


Source: Participant Responses, SAP Analysis

Q1 = Top Quartile; Q4 = Bottom Quartile

Trade Promotional Spending by Type

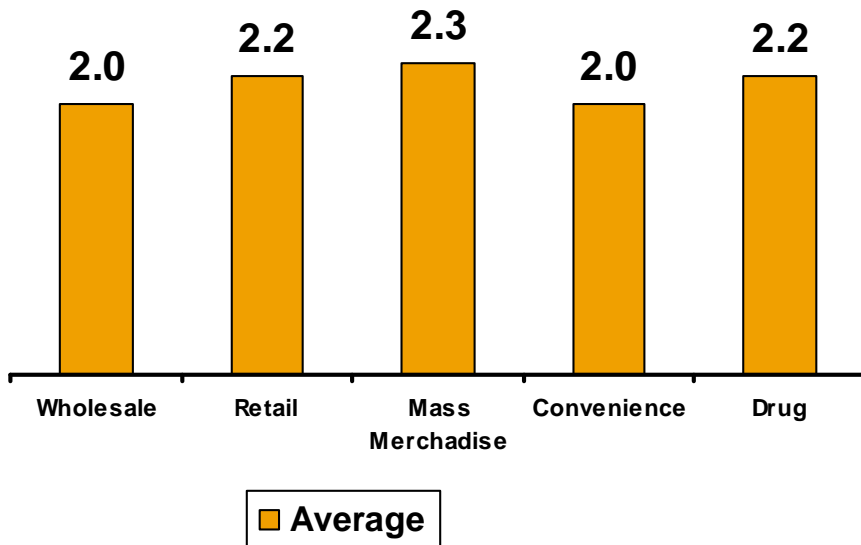
Average breakup of trade promotion spend



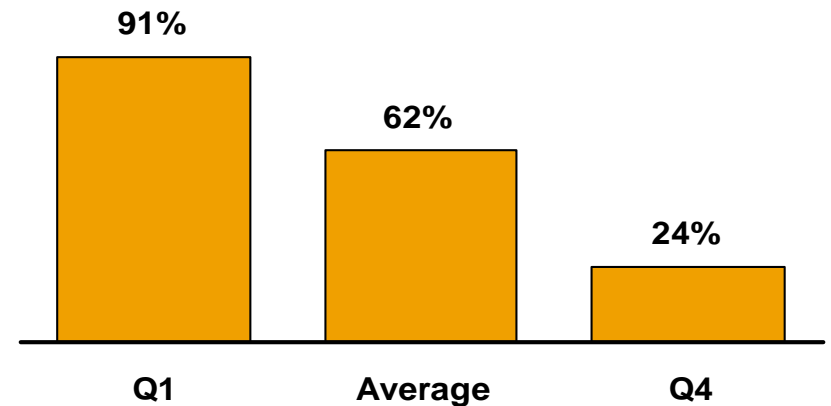
Source: Participant Responses, SAP Analysis

Trade Promotion Event Execution

Degree by which Trade promotion programs differ by distribution channel



Average ACV – All Commodity Volume performance on Trade promotion execution



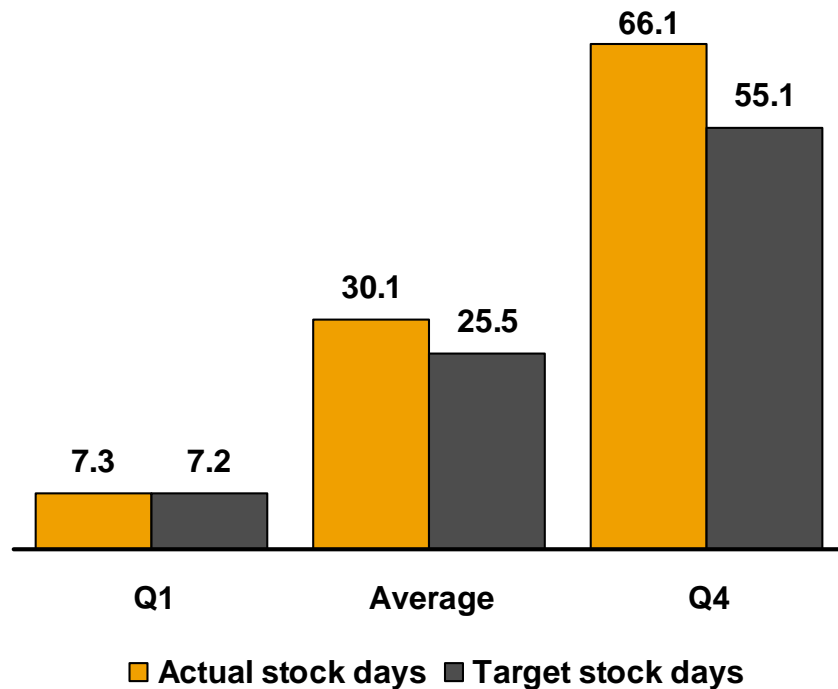
1=No Difference; 5=Completely Different

Q1 = Top Quartile; Q4 = Bottom Quartile

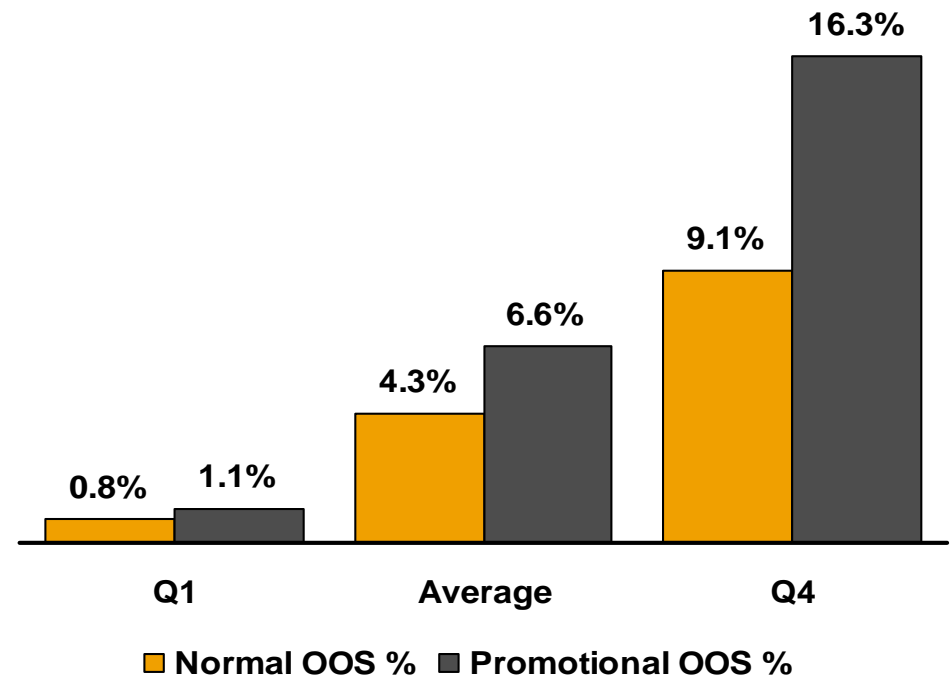
Source: Participant Responses, SAP Analysis

Demand Planning: Promotions Impact the Supply Chain

Target Stock (days)



% Out Of Stock (OOS) Incidence

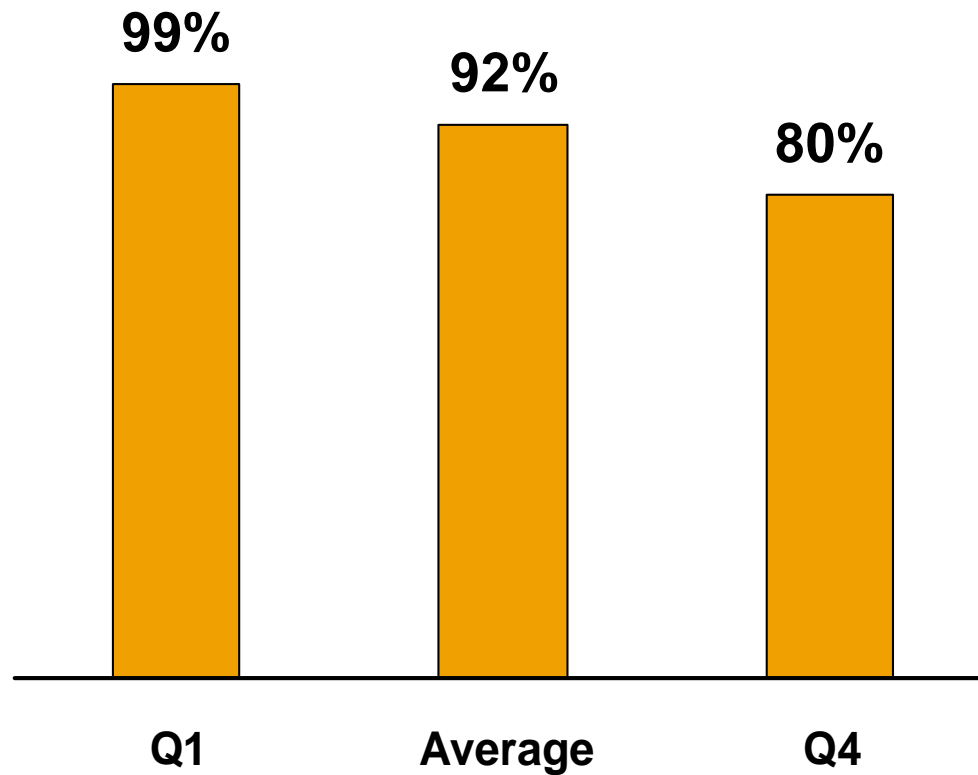


Source: Participant Responses, SAP Analysis

Q1 = Top Quartile; Q4 = Bottom Quartile

Trade Promotion Impacts Pricing

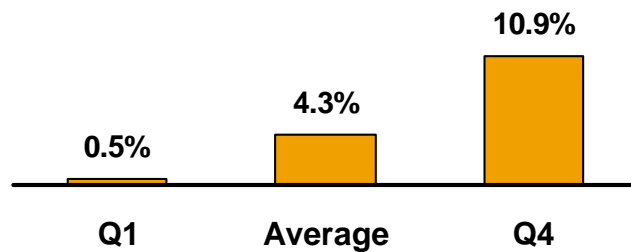
Invoice accuracy rate



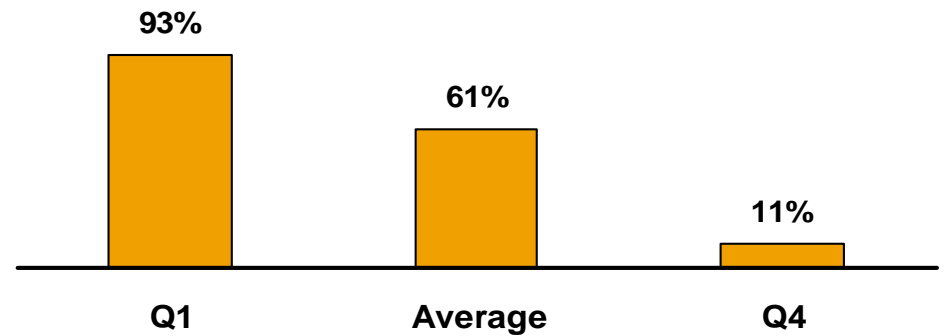
Q1 = Top Quartile; Q4 = Bottom Quartile

Deduction Management: Key Metrics for TPM

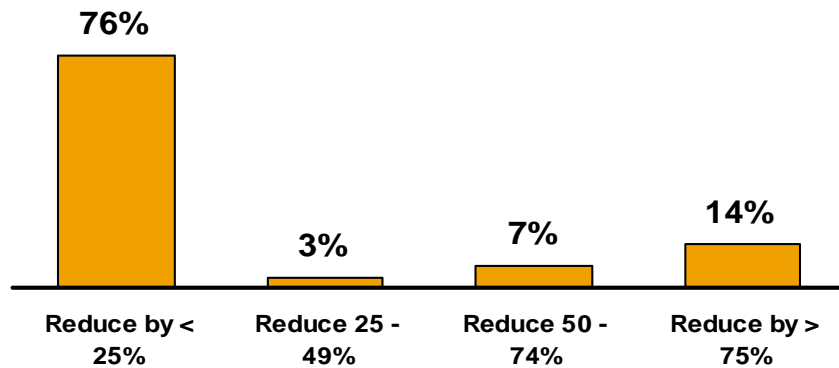
Deduction balance as a percentage of revenue



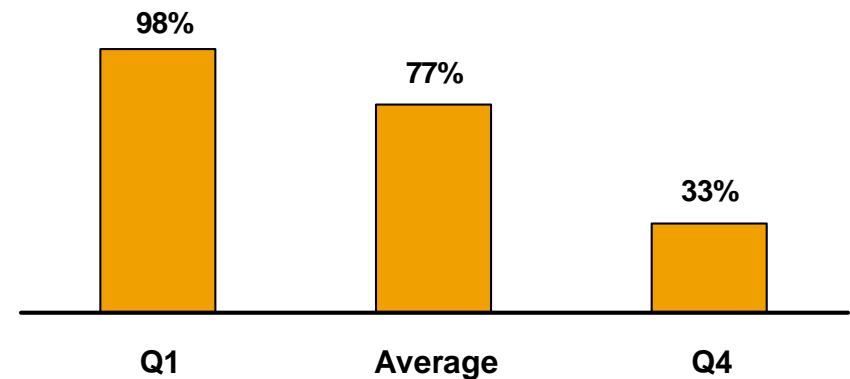
Percentage of Deduction balance caused by Trade promotions



Desired reduction in deduction balance



Legitimate Deduction Balance



Q1 = Top Quartile; Q4 = Bottom Quartile

Source: Participant Responses, SAP Analysis

Effectiveness of TPM Systems and Processes

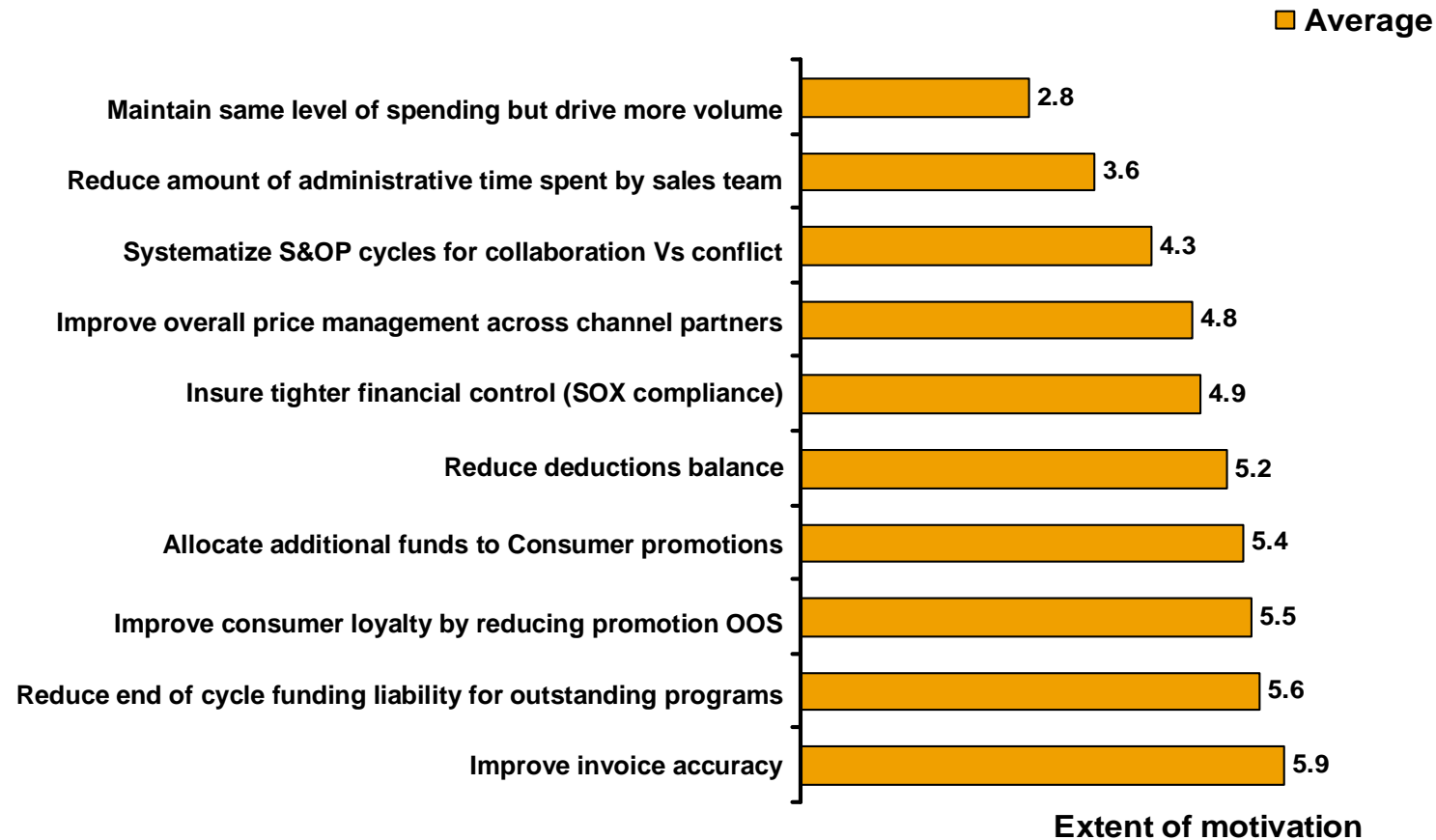


1 – Not at all effective 5 – Very Effective

Source: Participant Responses, SAP Analysis

Ranked in descending order of Average Survey responses – Very Effective to Ineffective

Ranking of Improvement Areas in TPM Processes



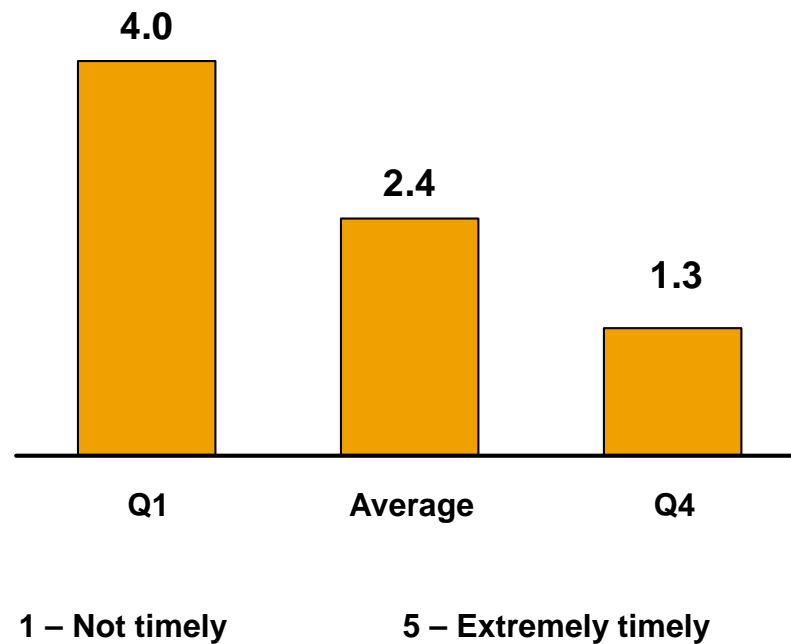
1 – Significant motivator 10 – Minimal motivator

Source: Participant Responses, SAP Analysis

Ranked in ascending order of Average Survey responses – Highly Motivated to Minimally Motivated

Overall Visibility of Trade Promotions

Timely insight into trade promotions



Source: Participant Responses, SAP Analysis

Q1 = Top Quartile; Q4 = Bottom Quartile

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Aggregate Balanced Scorecard

■ Bottom Quartile
 ■ Average
 ■ Top Quartile

Category	Key Performance Indicator	Average	Q1
Spending Effectiveness	Trade Spending as a % of Revenue	13-20%	3-12%
	Average Annual Trade Budget Overspending	3.9%	-1.4%
	% of trade promotions resulting in incremental volumes	61%	94%
	Timely insight into Trade Promotions	2.4	4
Operational Effectiveness	Actual days of stock	30.1	7.3
	Out of Stock % when a promotion is running	6.6%	1.1%
	Invoice accuracy rate	92%	99%
	FTE per \$100 Million Dollars of Trade Spending	7.6	2.2
	Deduction balance as a % of Revenue	4.3%	0.5%
	% of deduction balance which is legitimate and payable to customer	77%	98%

Summary

■ Key Areas of Potential Opportunity:

- Improve TPM visibility via analysis of programs to improve volume, profits and maximize ROI.
- Effectiveness can be gained via integration to financial systems and demand planning.
- Efficiency can be realized for system administration time and category tracking.

■ Key TPM Metrics:

- An average CP company's Trade Promotion Spending is 17% of revenue, while the top quartile performers spend 9%. This metric is only directional due to the strong influence of product, category and competition.
- Seek an optimal marketing mix across Trade Promotions, Consumer/Media and E-Marketing. Consider moving Trade Promotion Funding into more traditional brand marketing and brand building activities.
- An average company uses 7.6 FTE per \$100M of Trade Spending. This is significantly higher than the top quartile performers of 2.2. Utilize technology to reduce TPM administration and improve effectiveness.

■ Key TPM Process Areas:

- ***Demand Planning*** – On an average, companies maintain 30 days of stock, potentially indicating an opportunity to reduce finished goods inventory through more efficient planning and integration to the supply chain (visibility). Trade promotion integration into demand planning can help reduce out of stock levels.
- ***Trade Spending Strategies*** – There exists an opportunity to adjust trade spending strategies related to spend type and distribution channel. Consider increasing the usage of scan based promotions to encourage “pay for performance” and separate strategies for the convenience and drug channels.
- ***TPM Processes*** - Tracking ROI, measuring effectiveness of best trade promotions , integrating sales and demand forecasting and tracking impact on category volume may be candidates for improvement.