TRENDS

The Slow Burn of Trade Promotion Management

A Forrester and TPMA Study on the State of TPM and Enabling Technologies

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EXECUTIVE SUMMARY

Consumer products manufacturers must rethink long-standing trade promotion management practices in the face of increasing financial and regulatory pressures. So how are firms doing? To benchmark the state of trade promotion management and technologies, Forrester partnered with the Trade Promotion Management Association (TPMA). The resulting data and analysis – based on a survey of 44 consumer products executives – shows that manufacturers still struggle with basic trade promotion challenges and technologies. But by taking pragmatic steps to change internal collaboration bit by bit, smart manufacturers can successfully change processes and culture.

TARGET AUDIENCE

Business process executive, Technology marketing executive

CP FIRMS STRUGGLE TO RESOLVE BASIC TPM PROBLEMS

Trade promotion reform is one of the hottest topics with consumer products executives this year. It's no wonder. Trade promotion budgets have more than doubled over the past decade; Sarbanes-Oxley and FASB accounting rules are forcing firms to better monitor spend and tighten financial controls; and alleged funds mismanagement by major retailers like Saks Fifth Avenue and Home Depot turn a spotlight on trade promotion and charge-back abuses.[1]

Has increased scrutiny sparked process change? To answer this question, Forrester partnered with the Trade Promotion Management Association (TPMA) to survey 44 of its members on trade promotion strategies, challenges, and technology decisions. The survey respondents represent a diverse set of CP manufacturers – both in terms of company size and categories – but share a common responsibility for part or all of the trade promotion management process (see Figure 1).

Despite The Benefits, a Minority of Firms Use New Performance-Based Tactics

Over the last decade, trade promotions spending ballooned at CP firms – from 7% of sales in 1985 to 18% in 2005 – and it's now the second largest line item after cost of goods.[2] Spending isn't letting up: 41% of our respondents report an increase in 2006 budgets compared to last year (see Figure 2-1). Where's the money going?

- **Ongoing support of standard tactics.** The vast majority of respondents continue to fund traditional tactics like co-op advertising, display allowances, and off-invoice discounts (see Figure 2-2). While co-op programs require retailers to demonstrate performance, the continued popularity of these other two tactics, plus slotting fees in CPG, means that even now many manufacturers lack the data to measure promotion effectiveness.

- **More limited use of new performance-based promotions.** Less than one-third of those surveyed employ pay-for-performance promotions – a low number due in part to the high representation of non-CPG firms in the survey. Still, pay-for-performance lags off-invoice even among our CPG respondents, in spite of many manufacturers' attempts to move from off-invoice to scan-based promotions. Meanwhile, consumer-driven trade promotions are embryonic: only 16% of firms in this survey created programs delivered through retailer loyalty cards. It's no surprise, since only 8% of retailers share loyalty card data on a regular basis.[3]

Internal Collaboration and Benchmarking Are Burning Pains

Why is the pace of change so slow? CP executives must rethink long-standing business activities and culture practices in order to address trade promotion visibility and performance as well as regulatory pressures. It's a tall order. We asked respondents to rate the level of "pain" that their companies feel for common challenges – from measuring profitability to internal and retailer collaboration. What's keeping these execs up at night (see Figure 3)?

- **Collaboration across sales, finance, and supply chain functions.** Respondents indicated their top two challenges relate to coordinating internal working groups. The most acute pain: providing current trade promotion planning and results to all levels of sales and finance. This is followed closely by the challenge of integrating promotion planning and execution through all stages of the supply chain.

- **Benchmarking and performance analysis.** Not surprisingly, our respondents are also concerned about defining a meaningful set of metrics for evaluating trade spend, and measuring the overall profitability of a given trade promotion. The payback is sizable when firms do measurement right. A 2005 study by the Grocery Manufacturers Association, ACNielsen, and McKinsey shows a strong positive correlation between higher incremental volume from promotions and quarterly – or even more frequent – post-event ROI analysis.[4]

Manufacturers (Still) Rely On Unsophisticated TPM Tools

Trade promotion technology solutions enable broader internal collaboration and more sophisticated analysis – resulting in demonstrable results. A 2005 study by Hand Promotion Management found that consumer products manufacturers who had implemented advanced trade promotion management and analytical tools improved overall ROI by 4% to 18%.[5] Our data suggests that the industry still has room for improvement when it comes to using technology effectively:

- **Technology adoption is all over the map.** Forty-one percent of respondents are in some stage of TPM adoption, from evaluating systems to full-scale deployments (see Figure 4-1). Still, over one-third of respondents have no plans for implementing TPM tools.

- **Excel and home-grown apps still lead the pack.** The technology solutions landscape is still highly fragmented. Our respondents use or are considering solutions from 11 different vendors plus their own home-grown apps (see Figure 4-2). Excel and home-grown applications are still the most popular choices – despite the well-known limitations of managing millions in trade funds using these rudimentary tools.

TPM Technology Priorities: A Sign of What's To Come

Technology sophistication varies by company, but respondents are more unified when it comes to their functionality wish list. Not surprisingly, these executives believe that basic functionality like budget allocation and account planning is critical. But respondents also ranked emerging functionality highly, signaling the future direction of the TPM market (see Figure 5). This functionality includes:

- **Profitability and performance analysis.** Our respondent's benchmarking and measurement challenges translate into a strong need for ROI analytical tools. When asked to rank importance on a scale from 1 to 5 – with 5 being the highest – 39% of those surveyed gave profitability and performance analysis a "5".

- **Retail execution.** Progressive retailers like Wal-Mart and Target provide consumption data by day and by store on a more frequent basis, thereby allowing manufacturers to move toward store-level planning and execution. Our respondents ranked POS data integration and in-store tracking a 4.07 on our scale.

RECOMMENDATIONS

CHANGE PROCESS AND CULTURE – BIT BY BIT

For the past few years, industry experts have called for trade promotion reform – a critical undertaking given the financial and regulatory pressures that will only intensify. Our data suggests that, collectively, the CP industry is at the beginning of this journey with much of the focus still on automation and internal visibility. Manufacturers in the throes of changing process and culture should take a bite-sized approach to control risks while learning. Here are three near-term tactics for doing so:

- **Use trade promotion plans to inform demand forecasts.** Cross-functional teams are all the rage with new processes like sales & operations planning. But for manufacturers who lack cross-functional supply chain, sales, and trade promotion teams – nearly half of our respondents – the question is how to get started? One method to consider: bring together promotion planners and demand forecasters to share demand inputs on a regular – monthly or weekly – basis. The data that promotion planners handle, including POS and geo-demographic consumer intelligence, adds a critical understanding of consumer demand to the demand forecast, serving as another point of reference in addition to shipment and capacity data.
- **Design performance-based promotions with the retailer in mind.** CPG manufacturers can learn a lesson from consumer durables firms that have long required accountability as proof of co-op advertising performance. Still, moving to performance-based promotions requires a shift on the part of not only the manufacturer but also the retailer – and many retailers for reasons legitimate and otherwise are reluctant to change. This requires manufacturers to design performance-based promotions with an eye toward retailer, as well as internal, benefits. For example, a manufacturer can create a scan-based promotion for new neutraceutical foods that draw foot traffic to a grocery retailer's organic section – a highly profitable area of the store.
- **Dedicate some funds to emerging consumer-driven promotions.** Progressive retailers like Kroger and CVS are sharing a limited amount of loyalty card information with suppliers, signaling the beginning of a trend in North American retailing. Trade promotions delivered using loyalty programs – as well as emerging in-store technologies like kiosks – are inherently more measurable than their traditional counterparts. Headquarter planners should earmark some trade promotion funds to test these methods. And where should account reps and trade promotion planners turn for help in designing these programs? To like-minded measurement types in consumer marketing – often eBusiness and database marketing managers – who intimately understand marketing to segments and measuring conversions.

Companies Interviewed For This Document

CAS

Demantra

Hand Promotion Management

SAP

Trade Promotion Management Association

ENDNOTES

[1] In January, the SEC launched an informal probe into allegations that Home Depot overbilled suppliers for damaged merchandise. Source: http://www.cfo.com/article.cfm/5401128?f=related

[2] Source: "The Trade Promotion Wild Horse: Ready To Be Reined In At Last?" By: Rob Hand, CEO of Hand Promotion Management and Bob Houk, CEO of Houk Trade Promotion Management. GMA Forum. Volume 8, No. 1. First Quarter 2006.

[3] Sixty-eight percent of manufacturers believe that retailers don't share the right types of data. See the March 28, 2006 Forrester Trends "Boosting the Store IQ."

[4] Source: "Winning With Customers To Drive Real Results." By: The Grocery Manufacturers Of America, ACNielsen, and McKinsey & Company. See: http://www.gmabrands.com/publications/docs/winning.pdf

[5] Source: " 'Priceless' For CPG Companies? Understanding Trade Spend Return." By Rob Hand, CEO of Hand Promotion Management. GMA Forum. Volume 8, No. 1. First Quarter 2006.