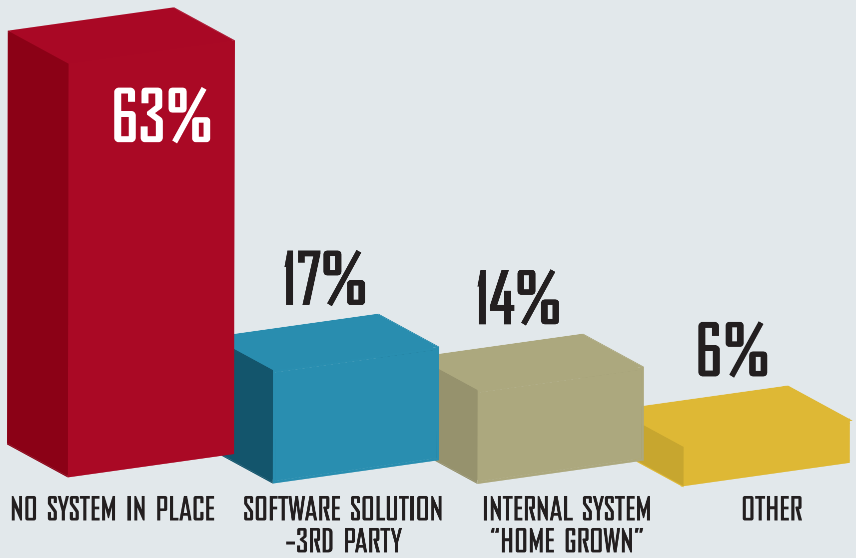
[FIGURE 1]

SOPHISTICATION OF TRADE SPEND MANAGEMENT



OPTIMAL APPROACH

How Trade Promotion Optimization forges stronger retailer relationships

CONSUMER PRODUCTS ANNUAL TRADE fund spending continues to outpace profitability growth. As today's technology solutions improve and incorporate more analytics, manufacturers are better able to manage trade-spending resulting in higher sales with greater profits. With executive-level commitment to both organizational and process change, the opportunities for significant bottom-line improvements have never been better.

MAKE IT PRIORITY

Clarkston Consulting and *Consumer Goods Technology* (*CGT*) launched a survey in September 2005, to gain insights on current trade promotion challenges and planned initiatives for 2006. Only a small minority or 6 percent of companies reported that their practices for managing trade promotion spending are sophisticated. A predictable 64 percent stated that improved trade efficiency through applied business analytics is a priority for their business over the next 18 months.

To echo industry discussions that there is much work to be done, the study revealed that 60 percent of the companies currently do not have an information technology strategy for deployment and use of business analytics to manage trade promotions, and nearly 63 percent do not have a computerized system in place for trade promotion planning and evaluation (Figure 1).

Consumer products executives obviously recognize the need for change. As more leaders are managing to profitability, sales incentives and bonuses are still tied to retailer sales volume and revenue goals. Improving retailer relationships are vital to meeting consumer demands and effective trade promotion programs can be the catalyst for change. For 36 percent of the companies that have not made this a priority, the respondents felt that it wouldn't add up due to their size, product categories and/or budget.

"An impressive 70 percent of the Clarkston/CGT survey respondents are storing retail consumer data in their central data warehouse." JAN GOLLINS, CLARKSTON CONSULTING

For those, small to large, where managing trade promotion programs will have impact, the prevailing challenge is taking the first steps to developing an operational strategy that encompasses the key components for successful trade promotion optimization (TPO) — process, technology and training.

RETAILERS TAKE NOTICE

Retailers are craving unique, differentiated promotions and configured products that set them apart from their competition. By moving from today's model of sales-controlled trade spend to a tightly integrated approach, both the manufacturer and retailer will benefit from accurate analytics and predictable results that will maximize the effectiveness of every promotional dollar. The market predicts that sophisticated retailers will embrace this change. Unsophisticated, short-term retailers will continue to focus on the incoming cash flow for margin enhancements and neglect the tremendous merchandising opportunities that will propel category growth and increase traffic.

While technology is at the core of a trade promotion solution, mastering data analysis and metrics development will deliver the anticipated results. An impressive 77 percent of the Clarkston/*CGT* survey respondents are storing retail consumer data in their central data warehouse. Approximately 60 percent are collecting their own consumer data from the Internet, and less than 30 percent of companies are gathering loyalty or syndicated data.

Companies need to consistently measure profitability such as base and incremental volume. Without the baseline (estimate of normal sales without the promotion), it is not possible to understand the dynamics to optimize trade promotion. Base sales volume enables companies to measure trade spend return on investment. The difference between base and incremental volume, and the factors that drive each these components of sales are the basis for successful sales forecasts. Integrated analytics at the planning level also motivates sales executives and is better linked to category and pricing strategies.

Early TPO adopters are creating Key Performance Indicators (KPIs) specifically designed to measure trade promotion effectiveness. While all KPIs are metrics, not all metrics are KPIs. Traditional metrics such as product revenue, market share and revenue/cost per case are replaced with measures of incremental volume and promotion lift for both the brand and category. Monitoring these metrics across brands, categories and retailers leads to the epiphany that gets consumer products leaders excited to change their relationship with their retailers. The retailer, the category, the channel, and the manufacturer all experience immediate benefits from innovative trade promotion practices.

TPO is a continuous and evolving strategy for which manufacturers can quickly gain control over their trade promotion expenditures, measure performance at the retail chain level, and better predict financial results.

By changing their approach to account planning, executives can use trade analytics to illustrate that many past events that do not produce the desired outcome and move on to trade spending that will increase top-line revenue and bottom-line profits ultimately forging much stronger retailer relationships. CG

BY JAN GOLLINS, DIRECTOR,
CONSUMER PRODUCT SOLUTIONS
CLARKSTON CONSULTING