

Collaboration through Experimentation in Trade Promotion: **a Winning Combination**

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Introduction

The fact that the majority of trade promotions do not achieve positive ROI is widely accepted. Our purpose here is not to expound on the problem, but to highlight a four-stepped approach to collaboration through a cycle of experimentation to improve promotional impact and profits.

STEP 1 Analysis

UNDERSTAND PAST PROMOTIONS. Today the trade promotion cycle is largely “anti-experimentation”. This is to say that learnings from past promotions are seldom extracted and improvements don’t work their way into promotional tactics because it is not known whether they were bad, mediocre, or good. As a result, speaking to a retailer about a past promotion in a collaborative setting threatens to expose a promotion that was not effective. In fact, since about two thirds of promotions do not break even, the odds are that looking more deeply at it with a retailer partner will only expose the fact that it was not successful. It is a real conundrum. We at the POI know this because consumer goods (CG) companies consistently tell us that they are able to evaluate only the top 2 or 3 promotional events at their top 5 customers. The other 85% go unevaluated. This is further underscored by our POI Survey data from 2018, which is as follows:



FIGURE 1. Answers to the statement, *“Your post event analysis process is automated so that reports are automatically populated and you can view as many promotions as you want as often as you want.”*

As you can see, only 18% (14% plus 4%) actually have this capability, and then another 18% that are somewhat automated. While having this somewhat automated is a good step, it still isn't sufficient to consistently extract learnings from the promotion cycle. As a result, we conclude that 82% of companies have not automated the evaluate aspect of their promotions. One final comment on this situation is that a large, global food company recently told us that they are able to evaluate 40% of all their promotions in the U.S. market. They achieve this through a cadre of 60 full-time analysts dedicated to the task – and doing so through spreadsheets. This illustrates the amount of human capital required to manually do post event analysis – and still only be able to see 40% of the events.

82% of companies have not automated the evaluation aspect of their promotions

STEP 2

AVOID “COPY AND PASTE” PLANNING BEHAVIORS. By the term copy and paste we are referring to the ability to take an entire slate of prior year promotions and simply copy them into the current year planning exercise. In our POI research as well as conversations with CG companies about this process, we find very few that don't do it this way. It is a rare request for proposal (RFP) that does not require this capability. What they tell us is that, either this is a valuable feature, or that they wish the planning were done in some other way, but that since copying from year to year is the norm they had just as well make it easy to do so.

Within the industry there is a hope that promotions will get better over time, but given that the majority of events never receive any evaluation after the fact, and that they are subsequently copied into the next planning exercise, it is little wonder that the majority of events still do not break even.

Nevertheless, there is still a very large opportunity here because the tools do exist to evaluate promotional outcomes and incorporate learnings into subsequent planning periods. It will take data integration and discipline, but doing so sets the stage for breaking the norm and achieving competitive advantage through experimentation, which we will see in a subsequent step.

**“promotions
will get better over time”**

“a journey from good to better to best”

STEP 3

MOVE TOWARDS OPTIMIZATION. First of all we need to define what we mean by this. We acknowledge that promotions can be improved by subjecting them to analysis and discarding those that do not perform (as opposed to running them again as a matter of course). This is the essence of steps 1 and 2 above. However, what we at the POI mean by optimization is specifically utilizing predictive modelling, a type of advanced analytical tool, to determine what will happen in a promotion given a given combination of frequency, duration, tactic, timing and price point (a very key lever) for a product or product family at a specific retailer. The ability to perform “what if” scenarios or simply specify the constraints around these variables and have the system determine the best combination is very powerful.

We specifically use the term “move towards” because it is a journey from good to better to best. Also, lest it appear overly simple to take the journey it is important to articulate some of the competencies that will need to be attained in order to do optimization. The primary four are: trust in systems, data quality, predictive capabilities, and best practices. We will address each in turn:

trust •

The issue here is that sales people often don't trust what they see in a trade promotion (TPx) system. They often believe that their instincts are better than any system, or that a figure in a solution is automatically suspect. Lastly, because they may not be familiar with how predictive modelling works, they dismiss it as a "black box" that is not worthy of their confidence. This issue of trust is quite significant. When we surveyed CG manufacturers on this we found the following:

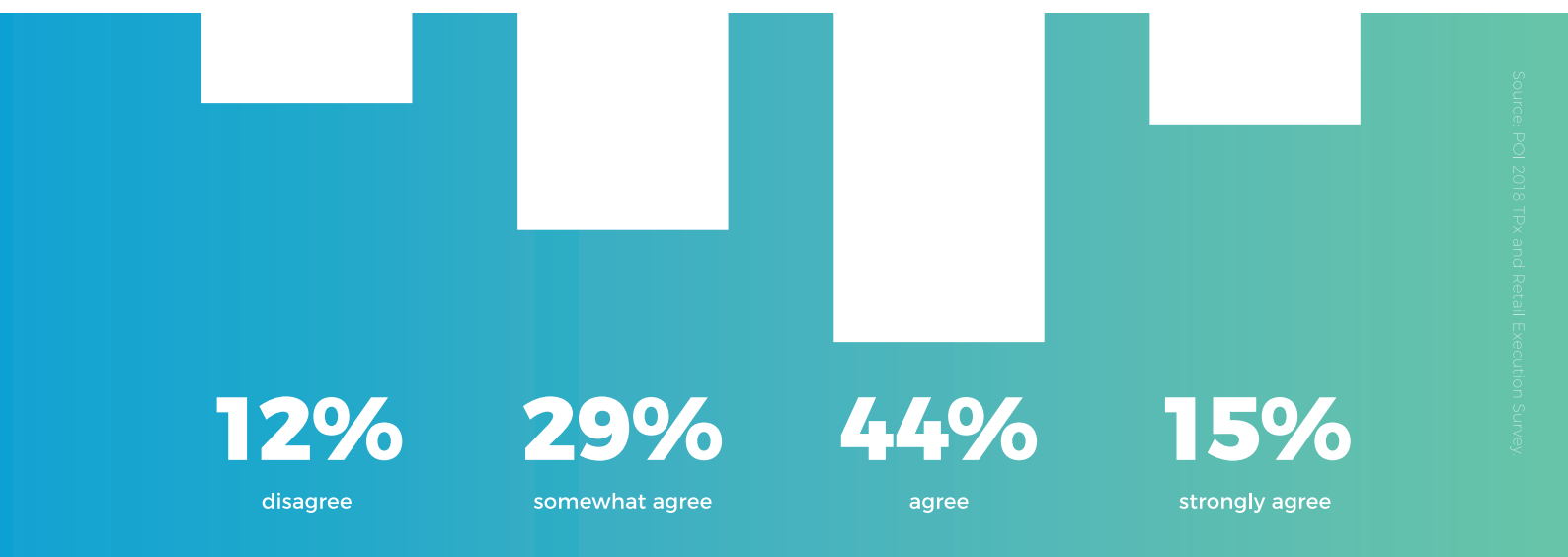


FIGURE 2. Responses to the statement [You have] *"Challenges getting users to trust what they see in the TPx solution, whether it is the calculated profit from a past promotion, a prediction of a future outcome, or something else."*

The responses show this to be a critical issue for 88% of respondents. The trust just isn't there to the degree that it should be. As a result the POI recommends taking steps to build their trust such as explaining how your systems work, ensuring that outlier data is not allowed to flow through the system, performing adequate testing/pilot before deploying, and not allowing for spreadsheets to augment the process.

Data quality. It takes 2-3 years of clean historical data to properly fuel predictive models. They can sometimes work with less, but the accuracy can be reduced. We have seen several promotion optimization projects sputter or even fail because a CG company bought a software solution without the realization that it would require good quality data and someone to acquire, cleanse, harmonize, and stage the data so it can be utilized. We see this in the POI Survey responses as well as follows:

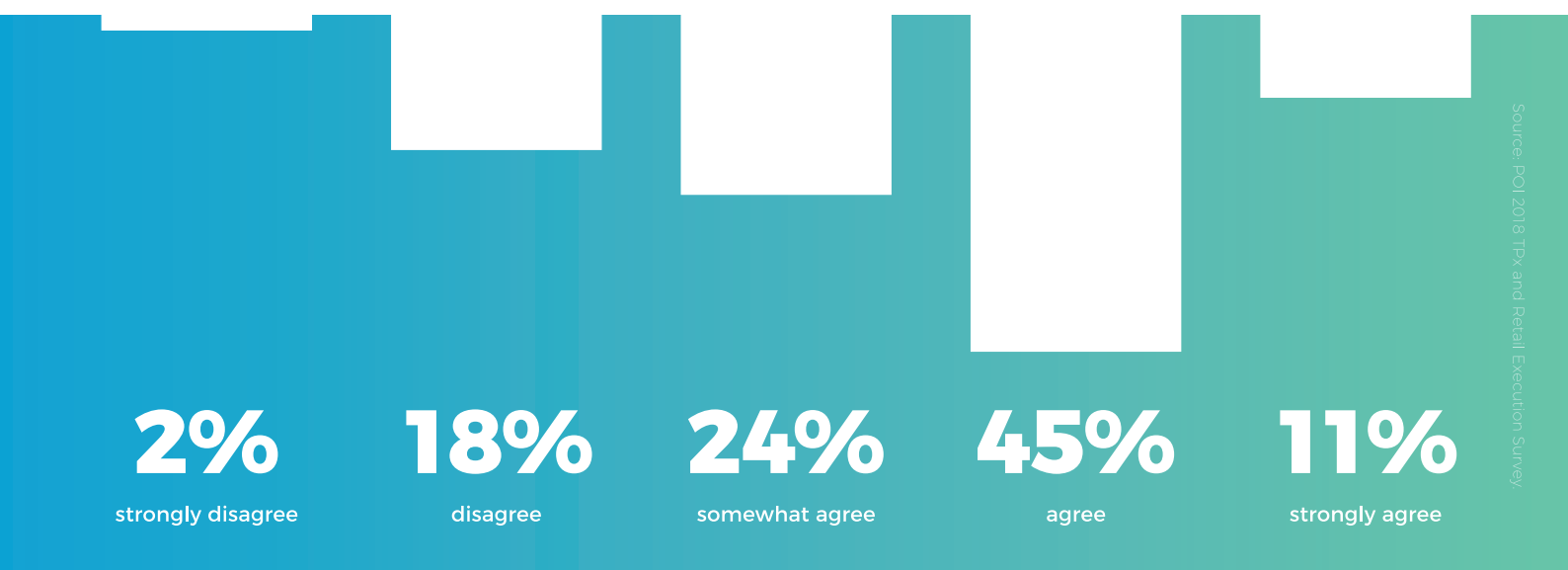


FIGURE 3. Responses to the statement [You have] *“Data quality issues from external sources such as POS (ePOS), syndicated data, etc.”*

This is slightly less of an issue than trust in systems, but still has to be overcome for some 80% of companies. In fact, it is perhaps more important because if the data is bad, it will lead to conclusions and sub-optimal actions by even the most trusting of sales people, which will cause trust to spiral downward.

The POI recommendation for data quality is that you don't try to manage it yourself, but look to a partner that excels in this area. Also, that you always consider data requirements for TPx systems before you actually choose them and begin to deploy.

predictive capabilities •

As we alluded to above, predictive capabilities are not like spreadsheets, or other arithmetic device. They employ a different set of technologies that can best be described as extrapolative in that that they take what is known and use it to predict what is desired to be known.

Most important, however, is that most CG companies have not brought these predictive capabilities to bear on looking at promotional outcomes. They simply don't have them. We know this because of our 2018 POI Survey responses as follow:

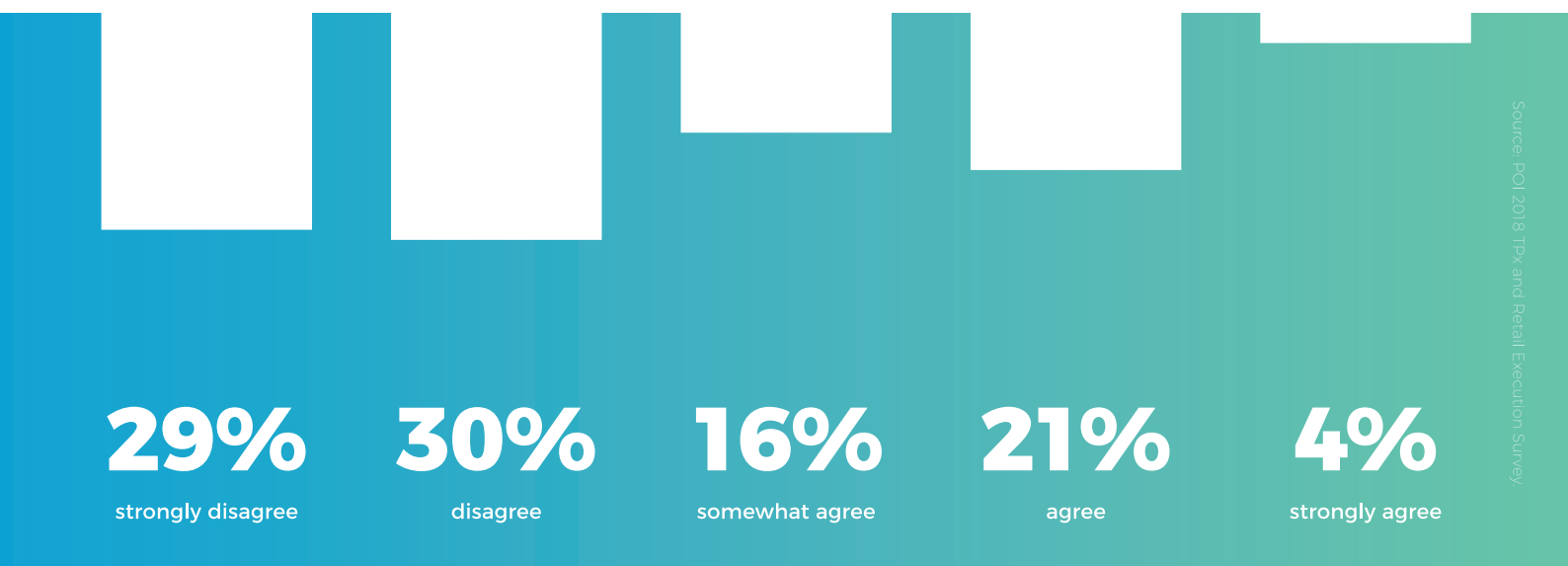


FIGURE 4. Responses to the statement, *“You have trade promotion optimization (TPO), which is to say, the use of predictive models to perform simulations and determine promotional outcomes, in the hands of your field users today”*.

Fully 75% of companies do not have these predictive capabilities in the hands of those who are actually building promotions. It actually may be more because we believe that some respondents may not have understood what is meant by the term “predictive models” in the question, but the numbers point to a sizeable opportunity. You should think of it as a competitive weapon, which if you are able to wield effectively, will allow you to get competitive advantage over 60 to 75% of your competitors by:

- Being able to plan and execute more effective and efficient promotions.
- Delivering financial benefits that can be re-invested into emerging promotion options such as digital and eCommerce.
- Achieving greater buy-in from retailers because of the ability to deliver insights and lessen promotional non-compliance. In a word, achieve greater collaboration.

75%

of companies
do not have
predictive capabilities

best practices •

Last of all we spend a few words on pulling together the trust, data and predictive capabilities with some assistance and direction from a partner that has done this successfully before. Because becoming predictive it is a new area, you can improve the probability of success by partnering for this expertise. All too often we see companies purchase software and then struggle with how to deploy and use it. We also see consulting engagements that are overly theoretical because they either want to culminate in building a custom solution, or else are detached from a particular solution as an anchor. We believe that a combination of solution and expertise is critical. The exact combination is something that you need to tailor for your needs based on what you already have and are good at, but you shouldn't underestimate the value of getting best practices. Our 2018 POI Survey data shows that only 29% of companies received best practices when they deployed their TPx solution. This may be because they didn't ask for them, or because they selected a software vendor that doesn't really have a services offering. Ergo, we recommend that you partner with those who have expertise and that you ask for best practices. You should interview those individuals who will work on your implementation to ensure that they have the industry and regional expertise that you can avail yourself of. This will help you to secure the right KPIs, tips on recruiting the right people, pitfalls to avoid, or merely showing you a better way of doing something.

None of these obstacles are overly daunting, provided you place focus against them. Certainly if they were easy then everybody else would be doing them, but such is the quest for competitive advantage!



STEP 4

ENABLE EXPERIMENTATION. We at POI see experimentation as a continuous improvement process. It is logical that learning from past promotions, eradicating a “copy and repeat” culture, and having capabilities for optimization creates a powerful cycle. We see it looking something like this:

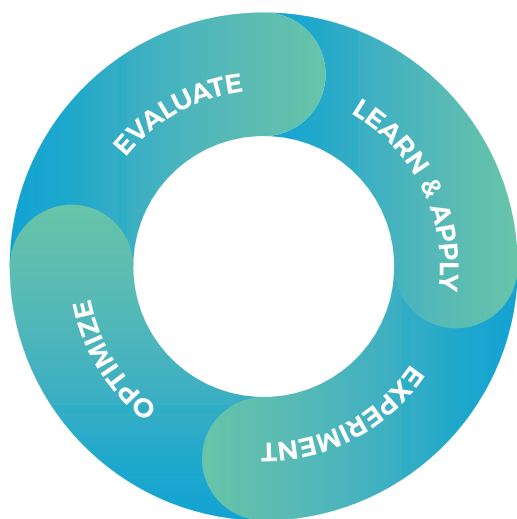


FIGURE 5. The Experimentation Cycle

Please note that this looks slightly different from other trade promotion management process cycles because we have specifically left out transactional elements such as plan, execute, and settle. We do this to call attention to this as a more analytical framework. We also do so to avoid the baggage of past processes where “plan” equals “copy and paste”, or any other elements that don’t support a constant refining process based on experimentation and measuring results.

Nevertheless, here are brief descriptions of the process elements that the POI has found to be best practices:

- Evaluate – This is post event analytics as we previously described it.
- Learn and apply – This is taking the output of the evaluation and making sure that it gets incorporated going forward. This is the antithesis of “copy and paste”.
- Optimize – Means taking the learnings and running them through the TPO solution to look at additional scenarios for improving them, questioning the assumptions, and sharpening the thought process. The human mind is not able to perform these sorts of calculations so it takes a new set of tools as well as help in utilizing them properly.
- Experiment – This is the act of applying everything thus far and bringing it to bear. It is by no means a sure thing because competition, market conditions, commodity prices, human preferences, and social forces are always changing. This, it may require some calculated risks because of a desire to innovate. Optimization will show some of the trade-offs, but often all of the data may not be available such as the case of promoting a relatively new item with limited sales history. However, because it is a learning and continuously improving process, the level of benefits becomes greater over time. By now you can see that this is indeed the antithesis of copy and paste promotion planning.

Another way of looking at our four element cycle is as approximating is the scientific method, which is executed well in industries such as high-tech, specifically: experiment → measure → refine → repeat, where products are often created from scratch to fill needs in the marketplace. It is not the same as creating a better promotion, but the mentality is indeed the same. We point this out because there would be no high tech industry if it were consistently falling back on the way things have always been done, or not measuring results and acting upon them. This is what the POI believes is needed. It is a significant opportunity.

We now turn our attention to more of the particulars of experimentation. By isolating causal factors behind promotional outcomes such as cannibalization, halo effects, weather, competitive actions, or social media we can move beyond the extrapolative power of optimization and do more innovation. This is a subtle but important point. Solutions that do predictive modelling are able to project based on the past through an extrapolative process. What they aren't good at is innovation. They are not creative. This should make sales people a bit happier and secure in knowing that we are not advocating for systems that will replace them. Instead, we are working toward a future where they can stand atop the analytical rigor of post event analytics, perform some simulation and then add in a pinch of creativity. This by no means throws caution to the wind, but allows for a few tactics that can be continuously measured and improved. It is a far cry from "copy and repeat".



ability to help through all aspects of deployment with a best practices approach

Some of the aspects of experimentation that we want to specifically call out have to do with pricing because it is usually the most significant driver of promotional outcomes. It is also the most quantifiable. By this we mean that it is pretty concrete if a promotion saw, for example, a 20% reduction in shelf price, as per the contract, at 76% of the retail outlets. However, it is not so easy to know whether a display went up on time, was in the right location, or had product on it the entire time. Hence, it is not as quantifiable. Thus, the POI recommends that where possible due to antitrust laws of other prevailing conditions, you look at TPx solutions that allow for the most flexible experimentation on the price dimension. This means having the predictive models most suitable to your CG industry sub-segment, demonstrated ability to handle the POS data, complete coverage of causal factors (cannibalization, halo effects, weather, etc.), and ability to help through all aspects of deployment with a best practices approach.

Desired result: collaboration

This is the culmination of the experimentation cycle. If done correctly, and continuously improved, it will spin off a considerable amount of insights that can be offered up to retailer partners as a means of generating more collaboration. Clearly not all retailers are willing or capable of this sort of collaboration, but each, within its own realm can be taken to higher levels. Also, through a segmentation process, you can best determine where to invest your time, attention and promotional funds.

Additionally, there is a profound element of internal collaboration. Because copy and paste promotions have gone away and there is a system of record like a TPx system, the additional transparency will bring all the best thoughts and ideas from front line sales people, trade marketing, revenue growth management, and sales management teams to combine what is proven, what has been optimized and that pinch of creativity that we mentioned previously to build the best promotion and continuously improve it.

Another aspect of collaboration is the inclusion of an integrated business planning solution (IBP). You should think of this as having all of the capabilities of TPx solutions spoken of, but additionally some elements of supply chain planning, profitability analysis from the retailer perspective, and the ability to present all of the salient information both internally and externally to the various constituents as part of the collaborative process. This ensures that the retailer is more involved in the process as well as internal stake holders.

Now that the internal and external collaboration aspect has been added, our Experimentation Cycle takes on this final element and looks like this:

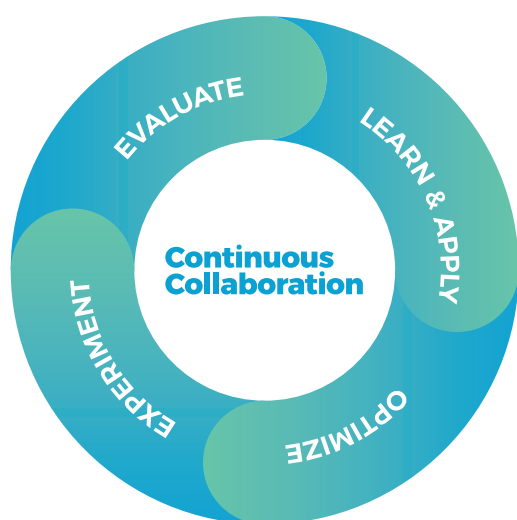


FIGURE 6.

The Experimentation and Collaboration Cycle.

In summary, this cycle is like no other that we have seen envisioned in the marketplace. It builds on the underlying transactional elements such as planning and settlement and calls out specifically what is required to become a more valued, collaborative partner to retailers. The value of doing so is staggering. Just by reducing the number of promotions that don't break even by 10 percentage points a CG company can drive an unprecedented level of returns.

The entire industry is struggling to change. Some players believe that moving to digital promotions will provide relief to the business dynamics. We at the POI, however, believe that trade promotion must be improved before doing much more than preliminary investigation of digital promotion in order to avoid doing battle on two losing fronts at the same time. All of the tools exist today to make the first as well as subsequent iterations of the Experimentation and Collaboration Cycle. We recommend persistence and taking the first step. The result will be a new paradigm and significantly improved promotions. This spirit of improvement is captured in the words of a famous scientist as follows:

“Discovery consists in seeing what everyone else has seen but understanding it for the first time”

– Albert Szent-Gyorgyi,
Nobel laureate in Physiology or Medicine

How Blueshift ONE delivers against this opportunity

There are 6 key ways that Blueshift ONE can deliver for you against the opportunity that we have outlined above. Specifically, because Blueshift ONE offers:

- **Solutions and expertise.** Blueshift is a leading provider of both solutions and expertise that provide account managers with the tools they require to quickly evaluate promotions for effectiveness, efficiency and ROI. The combination of solutions and expertise is very powerful and stands in stark contrast to service offerings with expertise that don't include a solution. Also, for pure technology offerings that lack industry grounding or may be merely a development platform.
- **Sweet spot of managing promotions and demand planning together.** Clients use the ONE Demand Forecast to drive their supply chain forecast as an integral part of managing promotional efforts.
- **Ease of use.** Highly ergonomic promotion modelling capabilities using predictive models from the in-built best in class Demand Planning module. This enhances user adoption.
- **End-to-end support.** Best Practise consulting from our team of consultants with end to end IBP and Industry experience is there for you before, during and after your implementation. It is comprised of subject matter experts with a background in account management, demand planning and finance who understand the challenges facing your key users.
- **Solution completeness.** The only true ONE number solution with a full IBP offering.
- **Critical data management capabilities.** A core focus of any Blueshift implementation is Data validation; quality data leads to quality decisions. Blueshift can analyse your data and show how to optimise your trade spend and inventory.

ABOUT THE AUTHOR

Dale Hagemeyer leads the research, best practices, and advisory function at POI and has been active on the POI Board since its inception. Previously, he was a research vice president and managing vice president at Gartner for 15 years. There, he did research in the application of technology to the business processes of trade promotion and field sales automation for consumer goods manufacturers. Prior to Gartner, he spent 14 years in management positions related to the promotion and distribution of products at Sunbeam Corporation, The Quaker Oats Company, PepsiCo, Kraft Foods, and Kroger. He also fulfilled an international assignment in Mexico from 1995 to 1996. He has served on various industry advisory boards for trade associations and industry periodicals. He holds an undergraduate degree in finance from the University of Utah and an MBA from the University of Chicago. Dale can be reached at dhagemeyer@p-o-i.org

ABOUT THE PROMOTION OPTIMIZATION INSTITUTE

POI brings together manufacturers, retailers, solution providers, analysts, academics, and other industry leaders with the specific objective of collaboratively improving the promotion and distribution of consumer goods. Members of POI share cross-functional best practices in both structured and informal settings. Additionally, members benefit through our industry alliances, the Certified Collaborative Marketer (CCM)[™] program, and industry-leading summits around the globe. POI aims to instill a financial and metrics-based discipline not typically found with other trade groups. The goal of our innovative approach is collaborative promotion optimization. The focus is on the customer/shopper through sales, marketing, and merchandising strategies. Executive advisory boards keep us apprised of industry needs and help us provide desired outcomes for members, sponsors, and academia.

For more information: Visit poinstitute.com or contact Michael Kantor, Founder & CEO Promotion Optimization Institute (POI) 914-319-7309 mkantor@p-o-i.org

Thank you!

