THE FINANCIAL FRAMEWORK FOR TRADE PROMOTION OPTIMIZATION SUCCESS

BUILDING THE FOUNDATION FOR RETURN ON TRADE INVESTMENT

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SALES ROI
CASH-TO-CASH
ECONOMIC VALUE ADDED
PARTNER NETWORK
DEMAND SIGNALS
DISCIPLINED PLANNING
DEMAND SENSING
PROMOTION OPTIMIZATION
THE FINANCIAL FRAMEWORK
FOR TRADE PROMOTION
OPTIMIZATION SUCCESS
SALES COLLABORATION
TRADE FUNDING
FUNDING STRATEGIES
SALES VOLUME
DEMAND SIGNALS
FORECAST ACCURACY
OPTIMAL SPEND
DEMAND SENSING
CATEGORY INNOVATIONS
PERFORMANCE INDICATORS
SALES COLLABORATION
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Acknowledgments

The Promotion Optimization Institute (POI) would like to thank the Capgemini team for the opportunity to collaborate on this research and for its members' valuable support and assistance in developing this in-depth report on a topic that is critical to the success of consumer products companies, retailers and their shared shoppers/customers.

A special thanks to POI members for their engagement (study participation, interviews) and the POI Educational Advisory Board for their active involvement and input with the study, and throughout the research effort.

POI would like to express its gratitude to the following members of the "Financial Framework for Trade Promotion Optimization Success" team:

Michael Kantor, MBA, CEO and Founder, Promotion Optimization Institute, LLC
Alex Kushnir, Principal, Consumer Products, Retail and Distribution, Capgemini
Bruce Pagliuca, Principal, Consumer Products, Retail and Distribution, Capgemini
Bob Fassett, VP, North America Consumer Products, Retail and Distribution Leader, Capgemini
Renee Duvall, Associate Director, North America Marketing, Capgemini
Priscilla Donegan, Marketing Director, Global Consumer Products, Retail and Distribution, Capgemini

POI would also like to thank the leading manufacturers, retailers and solution partners for their perspectives on the financial aspects of Trade Promotion Optimization.

Special thanks to **Vivek Sharma**, **Ashish Sakarkar** and **Swanand Ranade** of the Capgemini North America Research Team for their expertise, attention to detail and professionalism.

Most of all, POI and Capgemini thank the many consumer goods manufacturing and retailing executives who shared their time and expertise with us for this effort. Their collective wisdom, experience, focus and collaboration made this research and report successful.

Executive Overview

The proliferation of social media, mobile marketing and shopper marketing have fragmented marketing goals and added complexity to the quest for optimizing trade spend and return on investment. Sales, Marketing and Finance are bombarded daily with hundreds of trade investment decisions and must deliver with trading partners through all types of media. Too many of these efforts fail decisions and to hit their targets. Additionally, opportunity cost occurs when investments are made in the wrong events/promotions due to tightly constrained human resources and budgets.

Greater success can clearly be tied to those organizations/teams that are better aligned across Finance, Sales and Marketing, including funding strategies to support their goals.

When it comes to forecasting, planning and executing promotional investments with trading partners, few executives across Sales and Marketing have as clear a picture as do those in other functions (such as Finance and Operations). In some cases, they suspect missed opportunities and suboptimal spending/investment. The need for improved clarity is essential given the ongoing challenges of trade and shopper marketing (for example, commodity price variations), combined with the fact that many companies still plan in spreadsheets. To help provide that clarity, POI, together with Capgemini, is pleased to present this study and new approach entitled, "The Financial Framework for Trade Promotion Optimization Success."

Before consumer goods companies can determine the effectiveness of their marketing spend, they must have a sound financial framework in place to accurately budget, plan and forecast especially on promotions. Only then can executives align internal, then external partners to assess the right marketing mix (including social media and digital), pricing and offers to optimize promotional ROI.

The results of this study indicate that greater success can clearly be tied to those organizations/teams that are better aligned with process and funding strategies across Finance, Sales and Marketing. While most organizations have established and effectively communicated return on investment across teams, other financial measures critical to enterprise success such as cash-to-cash cycle and Economic Value Added are less frequently addressed. Yet they bring substantial clarity when put into the context of trade investment across teams and brands.

Cash-to-cash cycle (C2C) is largely used as a financial performance metric signifying how well the overall enterprise is managing its capital. As we look at promotional investment, we should consider the period that a company's trade dollars and other resources are committed and spent, before that money is finally returned at settlement and/or when customers pay for the products sold.

The common use of Economic Value Added (EVA) is to indicate to an investor if the enterprise seems to be "adding value" for the shareholders or if it is deemed to be "destroying value." When the calculation is applied to trade investment, all stakeholders (Sales, Marketing, S&OP, Merchandising, etc.) will better understand the impact (i.e., "adding value" or "destroying value") for brands, categories and stores, (e.g. volume, share, profit, trips/trip productivity and basket volume/profitability). EVA will also consider the opportunity cost when making poor promotional investment decisions.

This study addresses these issues and specifically demonstrates:

- How current budgeting processes and effectiveness vary across consumer goods companies (for example, top down, bottom up processes, combination of market analysis and statistical modeling, etc.)
- Effective trade funding methods that drive profitable growth
- How companies with trading partners execute against plan to achieve success

This report leads you and your team through an appreciation for the right financial framework (budgets, accruals, forecasts, alignment, etc.) to accurately quantify the success of Trade Promotion Optimization (TPO) and make more informed trade decisions. Additionally, it will help you understand the requisite capabilities needed to develop the framework inside your organization, and suggest a set of guiding principles to achieve its implementation.

Study Methodology

The analysis and counsel that appear in this report reflect input from more than 55 tier-one and tier-two companies in the consumer packaged goods (CPG)/food and beverage industry. The study team also conducted an extensive POI/Capgemini survey, which included Trade Marketing, Sales/Sales Strategy, Finance, Planning and Category Management executives to gain a cross-functional understanding of the issues. Participants were primarily at the vice president and senior management level. Additionally, the team drew upon analysis of publicly reported company data and other published materials.

While enterprise resource planning (ERP) systems play an important role in trade promotion effectiveness, they are in many cases just part of a complete solution. Our research explores the impact of financial and planning processes on trade spend effectiveness, establishes a framework for success, and looks at how sound planning processes can ensure support and delivery of a customer-centric model. It also identifies some best practices around sales and marketing automation that can dramatically improve collaborative marketing and accelerate success when adopting a Demand-Driven Enterprise approach.

Understanding and Addressing Today's Trade Promotion Optimization (TPO) Challenges

Understanding how to influence consumer demand has long been a major goal for the consumer goods industry. However, in recent years, the practice of brand building to increase distribution has become more complex. The development and dominance of national (and increasingly international) retailers, the advent of digital ubiquity, and the increase in social media and interaction have exponentially increased complexity. This presents consumer products manufacturers with new obstacles to executing trade programs as well as increased costs. It also presents companies with revolutionary opportunities to improve the effectiveness of how they interact with consumers.

Survey Findings

To get a better view of both the obstacles and the opportunities, POI and Capgemini conducted an industry study, focused on Trade Promotion Optimization. The purpose of the research was to understand the effectiveness of current practices around financial budgeting, planning and forecasting and how they are evolving to meet the new challenges. The majority of the survey participants were manufacturers in the food and grocery segment, with the remaining fast-moving consumer goods (FMCG) segments proportionally represented.

The respondents are actively involved with trade promotions management (84%), and almost 95% are are executives, directors, or in-line managers. Among the respondents, 64% work in companies with more than $2 billion in revenues, with the smallest organizations having revenues of $500 million. The responses confirm that the challenges are industry-wide, and that executives, regardless of company size, are focusing on the issue of trade promotion effectiveness.

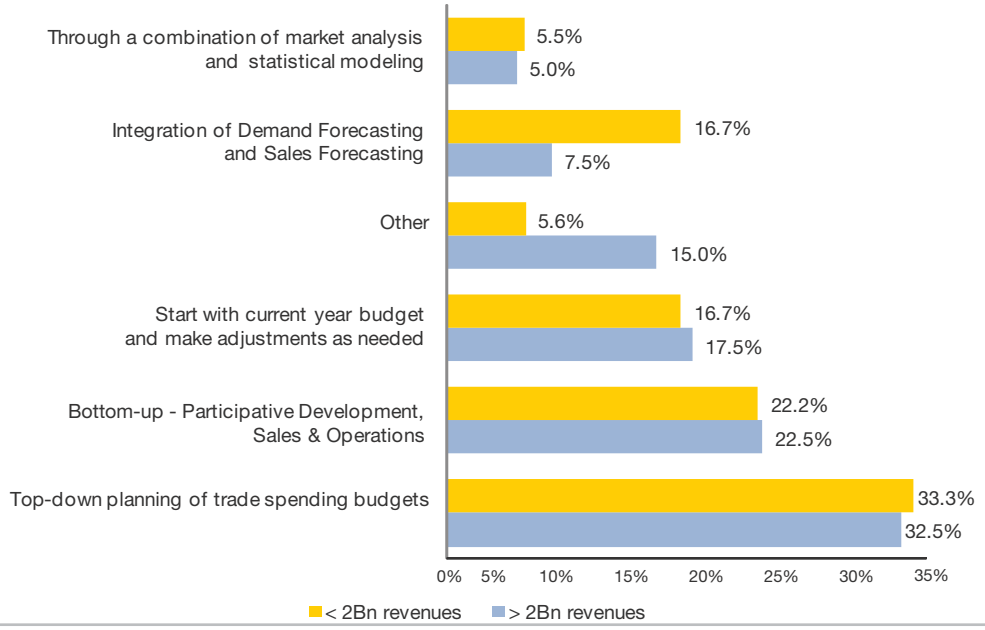
Common Practices Exist Across the Industry

While the gold standard of trade funds planning argues for a high level of coordination, in reality the processes in place are often influenced by the size of the manufacturer. However, the study found some practices common among all manufacturers regardless of size. So, while there is much opportunity for improvement, the good news is that we are not starting from scratch. These common practices serve as a foundation upon which to build.

Budgeting methodology. Regardless of company size there is a fairly even split between top-down and bottom-up approaches, with business intelligence coming from Sales and input from Operations. Getting the right balance is the goal, regardless of which approach drives the process.

Figure 1: Budgeting Methodology Mixed

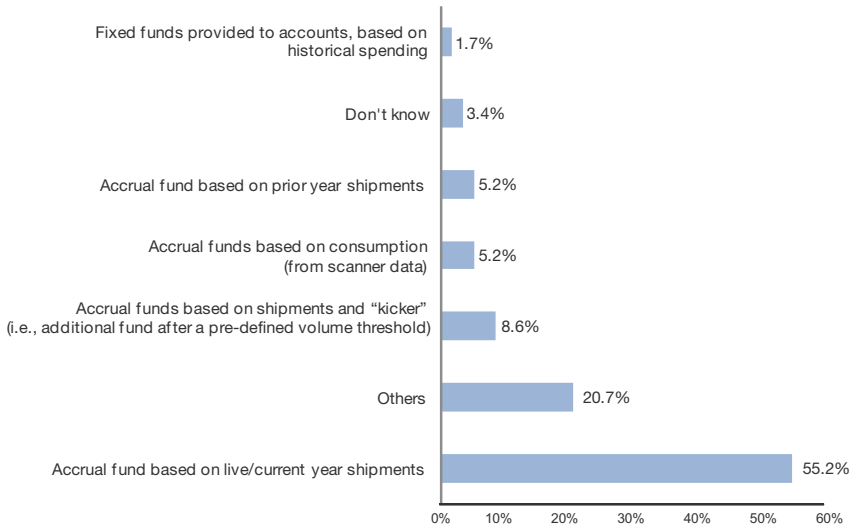
Source: POI and Capgemini



Account funding determination. Regardless of company size, an accrual funding methodology with live rates is most commonly used, cited by more than half of the respondents.

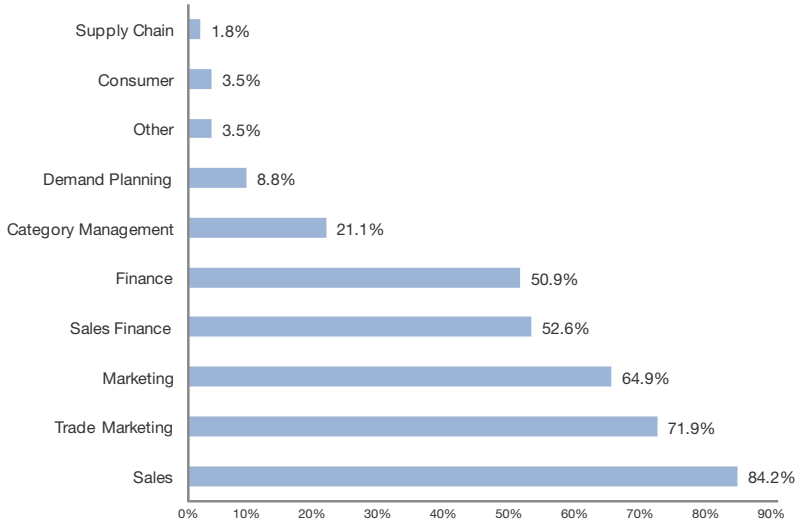
Figure 2: Accrual Funding Based on Live Rates

Source: POI and Capgemini



Fund allocation decision ownership and participation. Sales, Marketing and Trade Marketing drive the allocation of funds to the account level; Finance and Category Management are involved to a lesser extent. This was the case regardless of company size. Cooperation among departments is the industry norm, although the specific departments involved may vary depending on company size.

Figure 3: Sales, Trade Marketing and Marketing Drive Trade Funding **Source: POI and Capgemini**



Design and communication of objectives/KPIs. ROI is broadly used, while cash flow KPIs are either used to a lesser extent or are not defined as key. Economic Value Added may suggest the next area of focus. Based on our experience, this is often dictated by constraints in data availability and analytics coordination.

From the foundation of TPM, movement to TPO is no longer just a business differentiator, but an essential requirement to compete effectively.

Technology platforms. Standardized planning with KPIs and scorecards represents the majority of the deployed capabilities, with lesser emphasis on inter-functional integration and collaboration. Use of technology is broad, but the consistency, depth and integration vary. While there is good news here, most dashboards are backward looking and siloed. They have not been operationalized to assist in getting the right "mix" of spend decisions.

Need for analytics. All respondents say it is essential to determine the right forecasting method. However, while there is agreement on the need for forecast accuracy, there is less agreement on usage of, and dependence on, integrating forecasts and scenario analysis with different internal and external stakeholders.

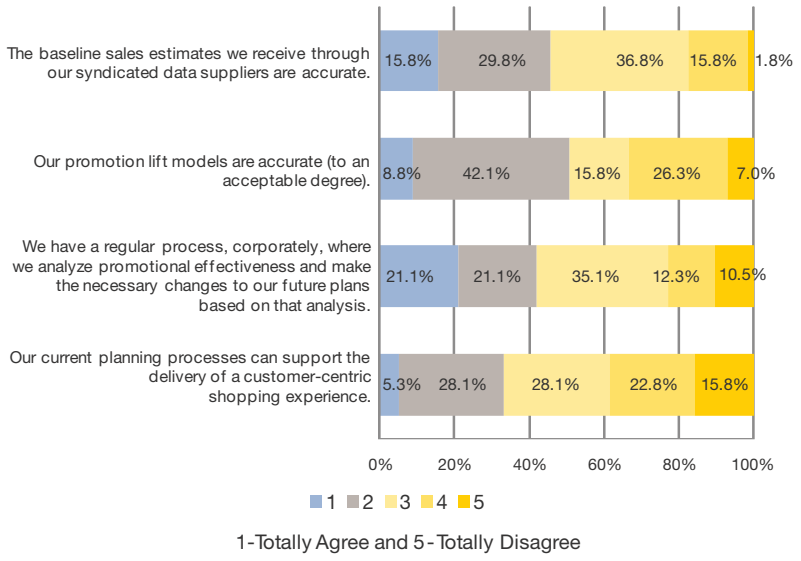
Differences in Practice Based on Size and Complexity

While it is clear that some industry norms have developed, significant differences in practice continue to exist based on a company's size and complexity.

Goals, strategy and tools alignment. Respondents from large CPG manufacturers ($2 billion+ revenues) indicated there is an alignment among departments, as well as reporting capabilities to combine multiple financial tracking and reconciliation of KPIs. However, smaller organizations (less than $2 billion revenues) reported less alignment between headquarters and Field Sales, and less-than-adequate reporting capabilities for financial tracking and reconciliation across functions. The reasons for this may include a lack of tools, less availability of data, or the need for more flexibility due to capacity constraints.

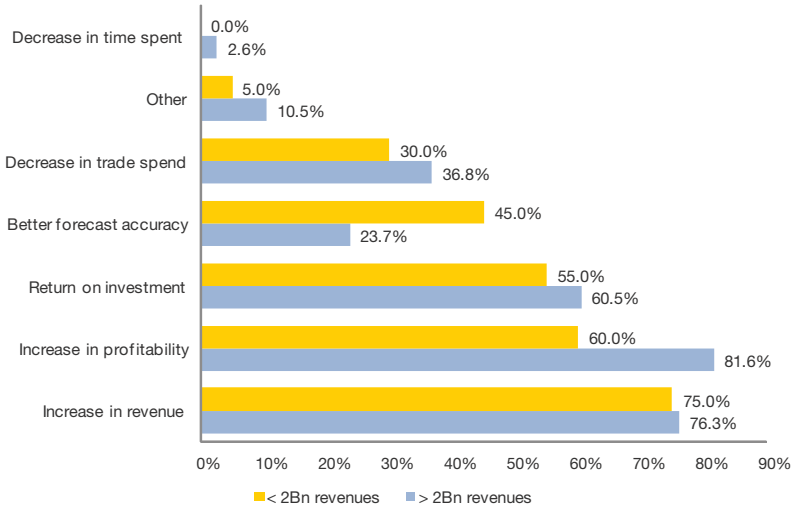
Sales forecasting, budgeting and planning. Smaller CPG manufacturers use and trust syndicated data. Also, forecast accuracy and promotion lift models are generally accepted. Larger CPG companies seem to have better processes and tools to analyze trade spend effectiveness as an input into the financial budgeting process. Respondents had mixed views about the incorporation of shopper insights into forecasting. We expect that the increasing availability of technology at lower price points will close this gap.

Figure 4: Sales Forecasting, Budgeting and Planning **Source: POI and Capgemini**



Top three KPIs. While respondents agreed that profit, revenue and ROI are the most important KPIs to track progress against plan, forecast accuracy is more important for smaller CPG manufacturers. Perhaps this is because there is a smaller asset base, which places greater emphasis on supply chain effectiveness, or because metrics are readily available from current Trade Promotion Management (TPM) systems and processes. While all three KPIs are important, progressive companies are moving beyond these basics. By measuring the cash-to-cash cycle, Economic Value Added, decrease in overall trade spend, trade vs. marketing ROI and in-season variance to plan, these companies are leveraging their investments in a more agile supply capability to respond to market variations as they occur.

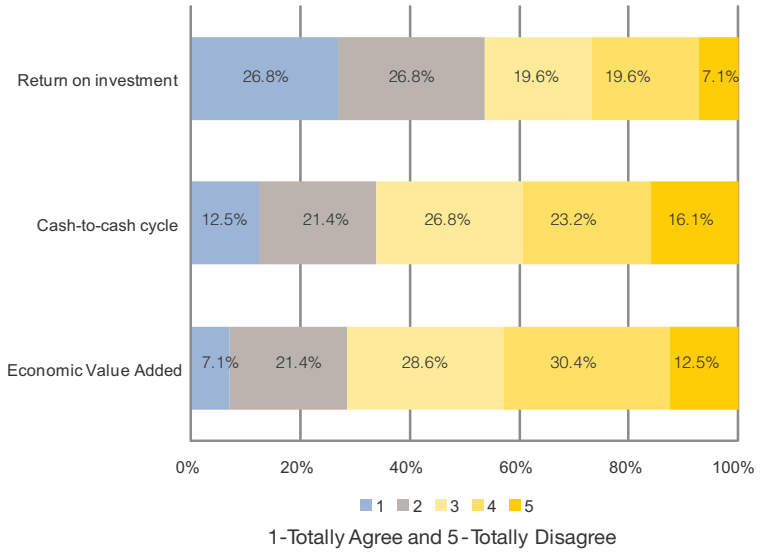
Figure 5: Top KPIs Used to Track Progress Against Plan **Source: POI and Capgemini**



The majority of responding companies have implemented processes that align goals, but system support for unified decision making lags behind.

Figure 6: New Financial KPIs to Measure Success **Source: POI and Capgemini**

"Our organization has established, and effectively communicates (to sales/marketing), key objectives expressed in financial measures, such as ..."



Research Identifies Emerging Themes

These survey findings as well as our client experience suggest that, as the industry evolves, a number of key themes are emerging. These include:

- Communication between internal and external partners varies in both frequency and effectiveness, as often KPIs and the data behind decisions are not shared. A common communication language and mechanism is required.
- Inputs used in determining trade decisions are often not within an agreed financial framework between partners. This is typically caused by siloed decisions and disparate methods and tools used in decision making.
- Trade decisions are better made based on consumer demand. Traditional decision making needs to incorporate consumer actions and sentiments, and be location specific.
- An integrated response between retailer and manufacturer is required to effectively meet the current challenges. A prerequisite to this is internal coordination among stakeholders.
- While siloed analytics are better than no analytics, uncoordinated inputs to decisions no longer are enough.
- Analytics, forecasting and decision-support processes must be integrated and operationalized.

From Emerging Themes to Guiding Principles

These emerging themes make it clear that from the foundation of TPM, movement to TPO is no longer just a business differentiator, but an essential requirement to compete effectively. Financial planning must be broadened to include specific operational actions that can be taken to respond to forecasted changes in demand.

When considering how to effectively optimize promotions, guiding principles emerge in four key areas.

Budgeting: Budgeting should incorporate top-down financial target setting along with reconciliation mechanisms to determine and resolve bottom-up budgeting gaps. Technology platforms should incorporate both types of methodologies with inputs from Sales and Operations, in addition to Finance, Marketing, Trade Marketing, Shopper Marketing and Category Management.

Integration of TPM solutions with financial planning is also critical to improve data accuracy and signal latency from Marketing, Sales and Operations. Forecast accuracy should be considered as one of the key influencers in the fund budgeting process, since greater accuracy improves trade spend effectiveness and reduces misallocation of funds. In addition, the advent of customer marketing techniques means companies need to understand how to allocate direct marketing costs differently, as well as the return they would achieve on those investments.

Funding: Account funding determination should include a combination of fixed and accrual methodologies. Accrual-based programs rely on accuracy of live rates to include "hidden" costs (e.g., logistical efficiencies, retail support, unsaleables, unauthorized deductions), whereas fixed funding can be used effectively for tiering and new item introductions. In addition, fund allocation decision ownership should incorporate Category Management and Operations to a larger extent. As a result, platforms should factor in competitive intelligence and cost of supply on an account-by-account basis (in other words, localization).

KPIs: Economic Value Added (a broader view of the profitability for customer and product) and cash-flow KPIs should be considered among the account trade fund determination criteria. Additionally, shopper insights and various forms of demand signals (e.g., consumer loyalty and POS/syndicated data) would increase return on trade, if factored in upfront during the budgeting process.

Enabling Tools: Tools and processes should take into account mechanisms to automate repetitive transactional activities and continue developing scorecards/reports to communicate decision criteria

and outcomes internally and externally. A comprehensive approach to integrating multiple planning constituents is the next evolutionary step for larger CPG manufacturers. The development of tools and processes should focus on integration of multiple functions to collaborate internally and externally in order to establish a cross-functional view of anticipated market demand.

Tools also need to mature by incorporating broader metrics, KPIs and success criteria. This puts more pressure on organizations to provide tools to accurately forecast and make it easy to understand variances at a more detailed level than exists today. The industry is evolving to require the same level of forecast accuracy on demand as it has traditionally placed on the supply chain.

The industry today is in transition: The response to the dislocation driven by the advent of the "Consumer Demand Era" has been anything but uniform. The majority of responding companies have implemented processes that align goals (56% to 89% agree or agree somewhat), but system support for unified decision making lags behind (70% say they lack integrated systems). We believe the root cause of this is the traditional siloed approach to decision support with analytics systems and processes built for a specific purpose. However, this is changing. Our experiences with clients who have taken on the challenge of finding the efficient frontier between level of detail and spend finds that they have been able to cost effectively produce valuable insights at reasonable price points.

Agreeing on the measures and accuracy of the data is a foundational, enabling function required for coordinating TPO with the financial framework.

Over 70% of the respondents believe forecasting methods must be aligned to data availability and say that choosing the best method is key. In our experience, we have seen that these two key elements are related and often confused. They have their root cause in the lack of supporting tools and process coordination between the specific, for-purpose analytics. These analytics have traditionally not been driven from a common data, analytics or decision-support framework. The underlying causes of forecast inaccuracies have more to do with the inputs and drivers feeding the forecasts and not the forecasting methods themselves.

Agreeing on the measures and accuracy of the data is a foundational, enabling function required for coordinating TPO with the financial framework. Challenges obtaining this are evidenced by the reliance on ROI as the key financial metric tracked. Cash-to-cash and Economic Value Added — key financial indicators in difficult economic times — are relied on less often.

Integrated Financial and Trade Planning: Perspectives and Approaches

How companies successfully integrate budgeting, planning and execution of informed and optimized trade plans depends on how realistic they are when implementing the processes. In our experience, the most effective and efficient way to achieve this monumental change is to take industry best practices and map those against current practices in order to define a flexible end state that can adapt to market changes. Once the process is defined, companies then can determine how to implement practically — and measure, refine and tune the process to meet changing business and customer demands.

The following section outlines key lessons learned from both the research and experiences with our clients, as well as a process to implement and tools to enable integrated financial and trade planning.

How companies successfully integrate budgeting, planning and execution of informed and optimized trade plans depends on how realistic they are when implementing the processes.

Lessons Learned in Budgeting and Planning

When looking to integrate promotional and financial plans, a number of key components need to be considered.

Incorporate business intelligence into the process as early and often as possible. This will help balance the "underspend vs. overspend" dilemma and minimize uncertainty around fund support. The richer the set of demand signals incorporated into the process, the more accurate the KPIs necessary for budget coordination will be. Standardized business intelligence provides the common language for communication between internal and external partners.

Trade rates should be structured to promote the desired results, integrated with and across category assortment plans. In addition, they should incorporate quantitative benchmarks for growth, incremental product supply costs, cost-to-serve, retailer support and retail execution.

Financial information has to move beyond defining plans, rates and tracking against them. It must be integrated into the operational decision-making process, and tools must enable this integration and operationalization.

Rules for funding and accruals should be easily measured/understood. They should be structured, as much as possible, to react to demand changes. The ability to balance complexity with flexibility is critical.

Communication is essential between internal and external partners. Technology platforms must enable a common language and visibility into the financial impact on all participants. Tools must enable integration and joint business planning discussions with customers around traditional vs. incremental funding support.

Agreed measures up front improve processes in all aspects of the cycle. This is true during the current year as well as next year.

Performance indicators need to be part of the process. Scorecards must provide useful information in addition to a grade after the fact. Reporting and analytical tools drive not only a financial plan "single view of the truth," but also provide the basis for future planning cycles and data accuracy.

With these imperatives in mind, the goalposts and frameworks for successful integration of financial and trade planning can be established. Following are four steps that can significantly improve the success of implementing an integrated process.

Step 1: Understanding the 'As-Is'

Understanding the current capability, successes, strengths and limitations should serve as the starting point. An important element in this step is to identify the gaps and pain points, including the following:

- ***Trade strategy:*** regional vs. global; performance-based funding; "base + incremental" vs. total volume forecasting; new item funding
- ***Process/operations:*** Trade terms and structures; activity ownership and collaboration touchpoints among Marketing, Trade Marketing, Sales Management, Field Sales, Finance, Operations and Customer Service; retail execution ownership; time lags between each activity; KPIs driving the completion/agreement of each step and acceptable latency
- ***Technology:*** Supporting applications functionality/reporting; integration with ERP, Demand Planning (DP), Data Warehouse (DW), TPO, mobile apps; multi-dimensional data filtering; automation capability/exception notification; rapid functionality deployment
- ***Organizational structure:*** Process and data accuracy bottlenecks that require additional support; staffing mix to support internal and external collaboration

A number of key factors should be identified for each pain point. For example, it is important to know all the KPIs that are used, both formal and informal. All organizations have specific measures used to understand position, but many of those have either not been or have been loosely quantified. Teams should make sure all KPIs are defined, and the measures used are articulated.

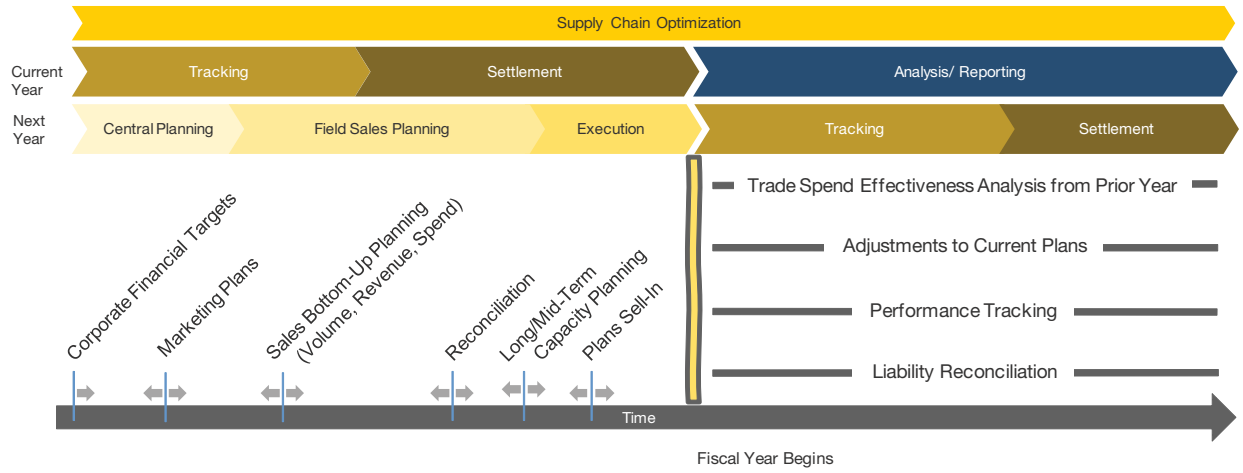
It is also important to understand what is useful and achieved with existing processes and technology. Key questions to ask of each include:

- Can it support demand as well as supply and distribution inputs?
- How adaptable is it to continual change driven by mobility and direct consumer input?
- How well does the process or technology communicate outside of its current purpose?
- How easily can it be changed to adapt?

Also essential is an understanding of what information, and with what frequency, is required from the current year to make next year's plan more effective (Figure 7). And, finally, how does each process integrate or communicate with the financial plan and budget, and what are the mechanisms and frequency for quantifying actual vs. plan?

An organization should think of its to-be state in terms of how consumer demand affects its operations.

Figure 7: The Trade Planning Cycle **Source: Capgemini**



Step 2: Defining the 'To-Be'

The to-be exercise should be grounded in practicality. Key steps are:

- Outline and agree on fundamental objectives, goals and KPIs that align with corporate objectives, looking out two to five years, and taking into account Marketing and Sales strategy across all channels and markets.
- Develop a business case for change. Define tangible financial improvement opportunities, with quantifiable competitive advantage.
- Define the framework for achieving the business case.
- Determine the framework, processes and tools that enable the business case.
- Prioritize the approach to achievement.
- Review and decide which processes and tools will best support this process, and incorporate them into an implementation plan.

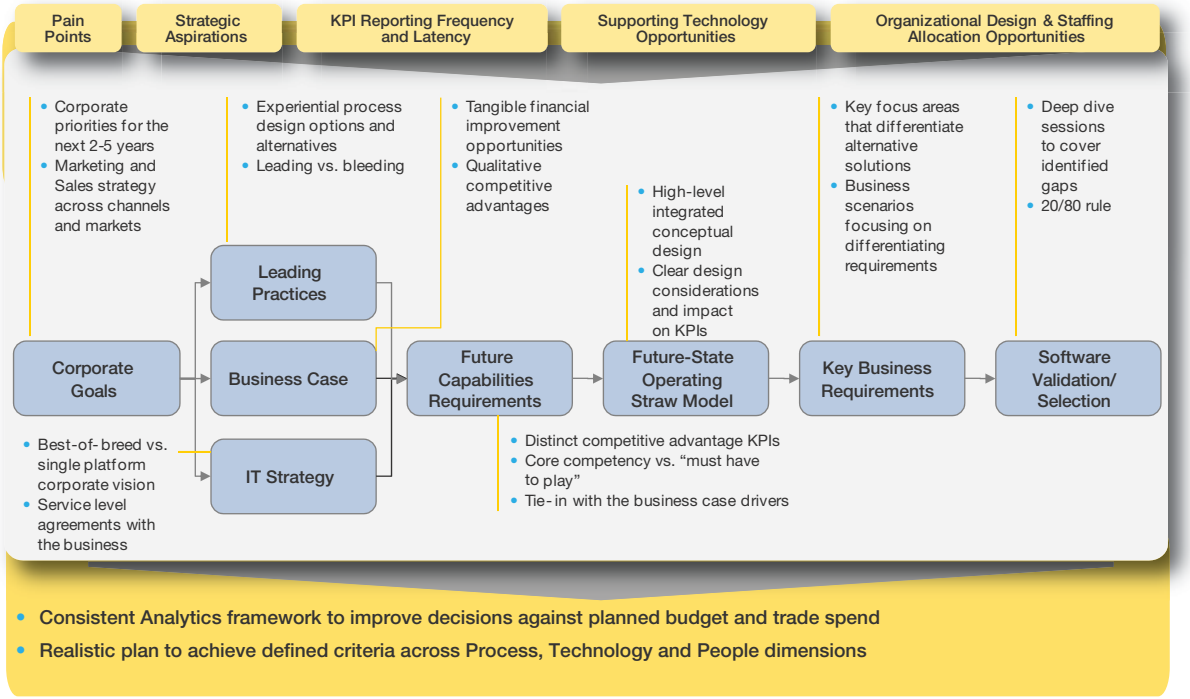
An organization should think of its to-be state in terms of how consumer demand affects its operations. This means that every operational decision that responds to changes in consumer behavior must take into account how it will affect the whole brand plan — Trade, Marketing, Category/Assortment — in the context of the original financial plan.

A number of guiding principles for design can be effective (Figure 8). For example, to-be states should define as many common coordination points as possible between these plans, and look to enable the operational decisions with a coordinated set of analysis. In addition, to-be states should evolve to take advantage of technological advances that can provide a standardized set of analysis that models the future based on a common set of drivers. That analysis should be conducted against an integrated set of interdepartmental KPIs, driven from a consistent modeling framework.

Additionally, the decision-support dashboard should be driven from a data set that incorporates operational, historical and sensory data. And the to-be must define how to continually improve the timeliness of feedback which reduces reaction time and determines proactive approaches to demand stimulation.

Relying on history alone to inform forecasts for specific purposes has been common practice for many years. The benefits of this approach must now be supported with the ability to respond to demand signals as close to when they occur as possible. Forecasts today should be capable of incorporating more immediate demand signals and consumer data.

Figure 8: Developing the Future-State Operating Model Source: Capgemini

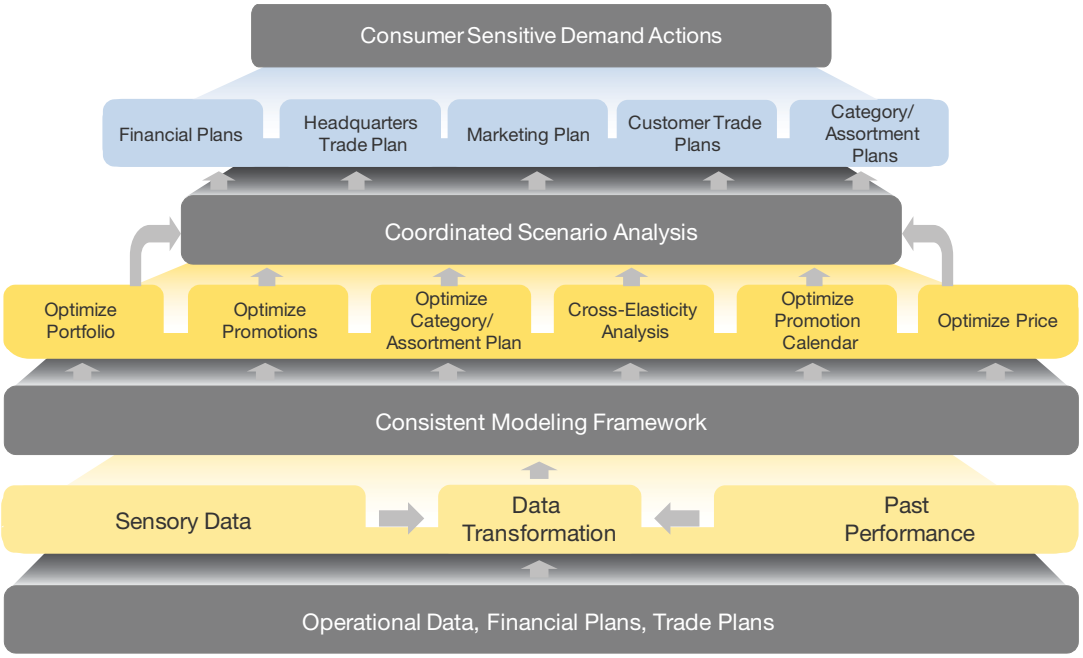


The use of for-purpose models in isolation is no longer effective. Modeling must now be done in a framework driven from the same data using a consistent set of modeling disciplines that allow for use of common drivers. This type of Predictive Decision Framework (Figure 9) allows for common metrics to emerge that inform forecasts which become meaningful to all stakeholders.

There are specific analytics activities, long done in silos, which if done within a common framework, using standardized modeling processes and a common set of data informed by demand signals, can provide a unified language that enables coordination between operational and financial plans. This framework becomes the foundation for incorporating predictive information into operational decisions. It can enable optimization across the product portfolio, corporate/customer trade plans, category/assortment plans, calendars, competition and price.

Figure 9: Predictive Decision Framework

Source: Capgemini



Outputs for each optimization can inform coordinated scenario analysis, allowing for each promotional decision to be made in the context of the financial KPIs and operational plans. This information makes true collaboration between operational stakeholders possible by removing debates and discussions about specific trade actions taken.

Combining visibility, proven historical analytics processes and demand signals into a common framework can help coordinate financial, marketing, brand, assortment and trade plans for both CPG companies and their retail partners.

To-be states should evolve to take advantage of technological advances that can provide a standardized set of analysis that models the future based on a common set of drivers.

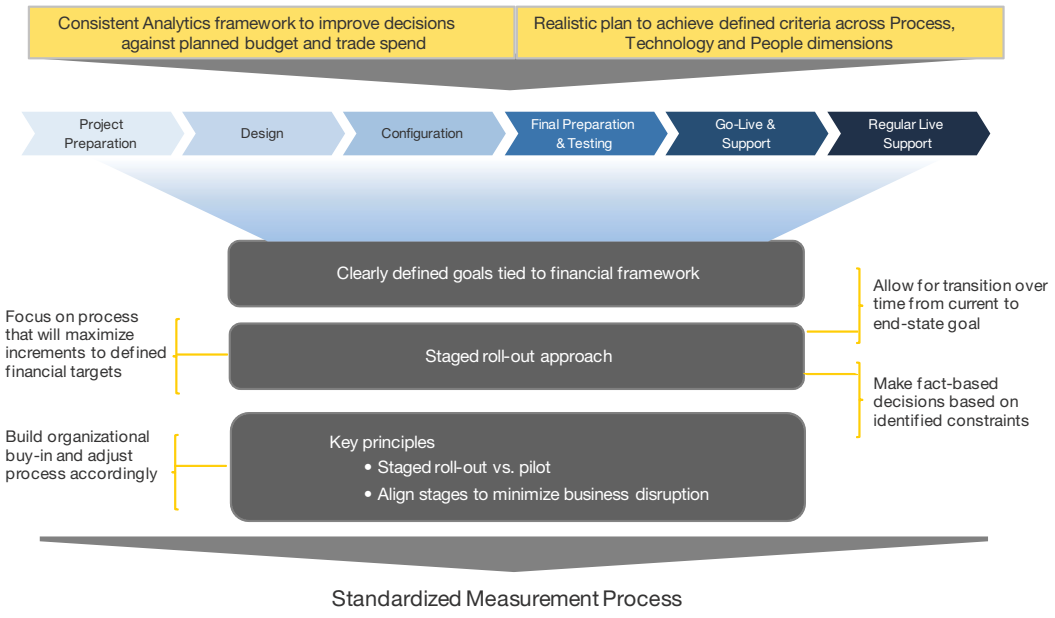
Step 3: Bridging the Gaps and Executing the Vision

Making this happen is not as daunting as it may seem. Companies have started to leverage their investments in a common transactional infrastructure as a solid starting point for establishing the same level of effectiveness when influencing and responding to demand (Figure 10).

Moving from a to-be definition to an integrated financial and operational decision-support process is possible. We have found the following principles to be key to executing the vision:

- Goals for each stage of the process should be measured against key KPIs and prioritized for benefit.
- Roll-out of functionality should be completed in stages that support those priorities, and continually measured against those KPIs.
- Roll-outs should not be pilots. The business requirement is to develop informed, predictive and demand-driven plans coordinated with financial KPIs. The focus of a measured roll-out vs. a pilot test encourages the behavioral changes necessary to incorporate quantitative influences into what historically has been a largely qualitative process.
- Organizational impact cannot be ignored. The effects on individuals, compensation and responsibilities should be well planned, and teams should work to manage business impact.
- Key drivers should be speed, accuracy and coordination.

Figure 10: Executing the Vision — Source: Capgemini



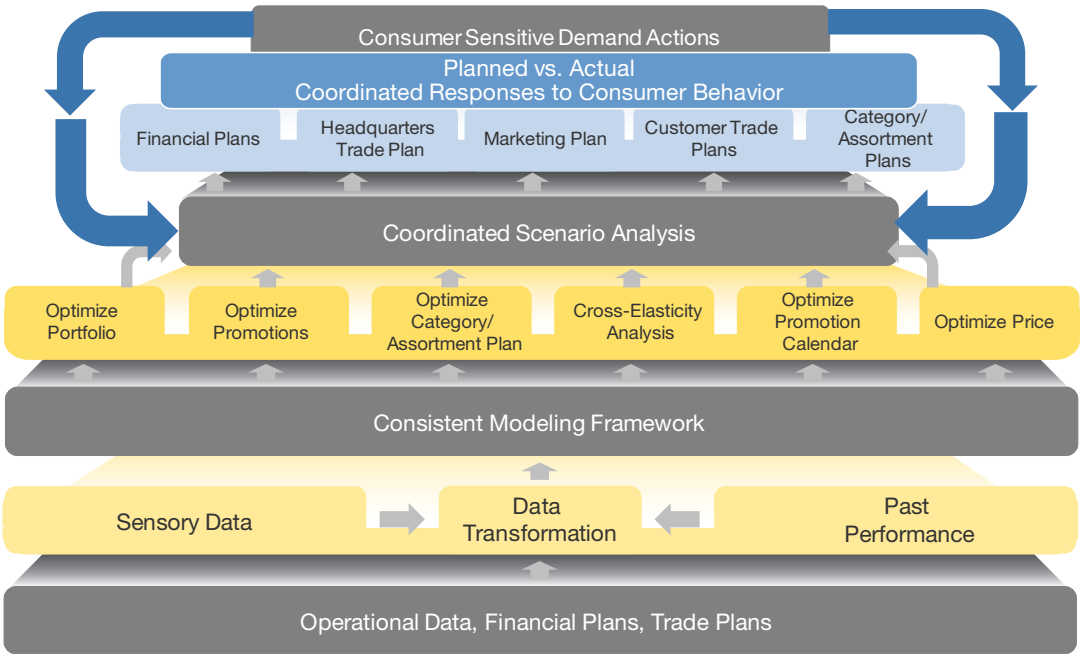
Step 4: Learning and Adjusting

Implementation of a coordinated decision-making framework makes course correction based on market activity not only easier, but timelier. Having consistent information, driven from coordinated modeling forms and data sources, removes confusion about the interpretation of what consumer actions mean. Adjustments can be made quickly — always within the context of the original plan.

Each adjustment should be taken after understanding the effect it will have on achieving the plan. Each should look to determine how consumer demand will affect the plan, model actions that are contemplated, and coordinate response across the entire brand plan (Figure 11).

Integrated scenario analysis driven by a consistent set of forecasting inputs should be the basis for all responses, proactive and reactive, to consumer demand.

Figure 11: Feedback Process to Fine-Tune Strategy and Execution — Source: Capgemini



The Big Ideas

The financial framework serves as a way to evaluate trade investment decisions, performance and efficiency of resources in your organization. It is a foundational capability of promotion optimization, including appropriating inventory and the necessary execution to serve shoppers/consumers.

As trading partners demand more of each other, TPO is a continual process, providing insight into your organization's ongoing efforts to improve sales, operations and systems. The financial framework acts as a visible commitment of your company's TPO results.

The financial framework serves as a way of evaluating trade investment decisions, performance and efficiency of resources in your organization.

Financial Framework Defined

POI defines a Financial Framework for Trade Promotion Optimization as a metrics-based process that enables companies to determine how best to approach trade investment decisions with trading partners. This approach increases the likelihood of success (regardless of tactic, medium, goal/measure). Measures such as forecast accuracy on promotion, incremental lift and mutual profitability are based on the achievement of results that are predicted. The framework also utilizes data and technologies to improve trade spend efficiency and effectiveness, and, thus, profitability.

With the proper framework in place, executives better understand the role of variables (promotion type, tactic, date, duration, price point, settlement time) and their leverage points, and can regularly monitor all changes, externally and internally, with regard to its constraints (for example, raw goods suppliers, customer segments, etc.). It is also important to calculate category effects, store brands and competitive concerns as well as industry benchmarks to help improve trade ROI. This framework also provides the basis for identifying areas of opportunity to guide strategic goals for continual improvement.

Demand-Driven Enterprise

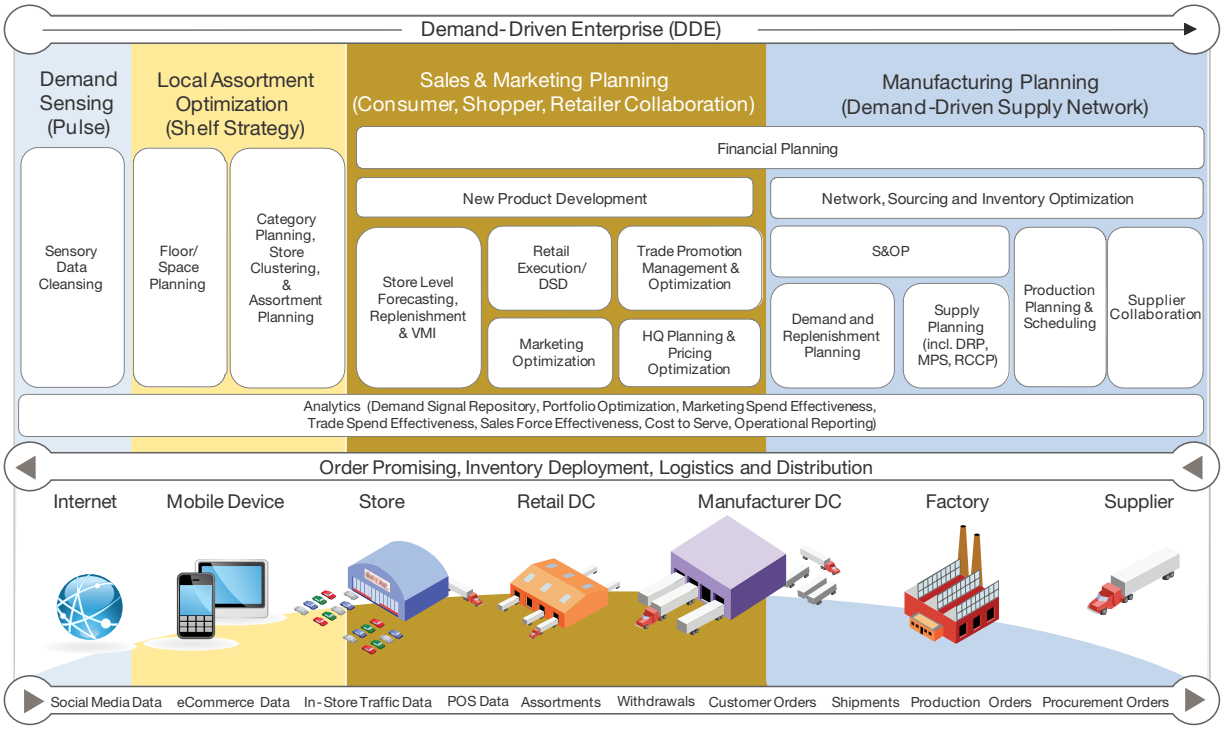
Industry dynamics are leading many companies to better understand the financial impact of their decisions and to focus on the consumer as the driver of activities within their organization. Our experiences helping CPG organizations develop flexible financial frameworks to optimize trade suggest that the holistic approach to enterprise design lowers the risk of margin leakage.

The Demand-Driven Enterprise (Figure 12) is intended to integrate the planning and execution processes across both CPG manufacturers and retailers to drive revenue and margin increases by better supporting assortment optimization, space optimization, trade funds management and demand planning while simultaneously streamlining the supply chain. The power of the Demand-Driven Enterprise is driven by four core concepts:

- Pulse – Demand Sensing
- Shelf Strategy – Localized Assortment Optimization
- Collaboration – Sales and Marketing Strategy and Planning
- Manufacturing – Demand-Driven Supply Network

These concepts work together as enablers to leverage the full breadth of consumer data available to maximize market share, revenue and ROI, while driving efficiency and agility in goods production.

Figure 12: Demand-Driven Enterprise **Source: Capgemini**



Components of the Demand-Driven Enterprise

Pulse – Demand Sensing: Understanding demand today is more complex than ever; no longer is consolidated syndicated data a full representation of how consumers behave. Loyalty and social media data can enhance traditional segmentation methods. Information access is more immediate than ever before. The opportunity exists for CPG companies to leverage their unique position as recipients of this data to re-establish intimacy with consumers in direct marketing programs, and to drive, with much more specificity, the demand creation and fulfillment processes.

This visibility enables CPG companies to have a truly agile supply chain response capability and the ability to react in a synchronized fashion with retailer inventory strategies to reduce disruptions in the extended supply chain. Together, the CPG companies and the retailer can now identify and prioritize the different types of demand signals and deploy inventory from the most cost-effective supply location. The demand signals can also form a baseline for inventory rebalancing strategies, which provide opportunities to further improve inventory volume and performance across the two networks. Inventory requirements that are aggregated from the store and distribution centers (DCs) provide Manufacturing and Logistics with the ability to plan and support short-term and long-term production plans across raw materials, carrier requirements and labor schedules.

Shelf Strategy – Localized Assortment Optimization: CPG account management teams will collaborate with the retailer and come to a consensus on final store-level assortments, plan-o-grams and a joint execution plan. The retailer's insights on future promotions, such as planned price discounts or advertised specials, which could cause consumer purchasing behavior to change, are incorporated into the forecast that is used to generate assortment plans and plan-o-grams. Both parties can further adjust the assortment and plan-o-gram parameters and regenerate plans systemically. The assortments and plan-o-grams will also take into account seasonality, details on new product introductions and adjustments based on emerging consumer trends.

The Demand-Driven Enterprise is intended to integrate the planning and execution processes across both CPG manufacturers and retailers to drive revenue and margin increases.

The Demand-Driven Enterprise proposes a greater level of CPG manufacturer involvement in managing the initial planning of assortments and shelf space and further collaboration to reduce risk with retailer workload around detailed product analysis in planning the shelf.

Collaboration – Sales and Marketing Strategy and Planning: The Demand-Driven Enterprise takes into account leading trends in how CPG manufacturers differentiate themselves in a competitive marketplace. It does not encompass all business functions for a manufacturer to successfully collaborate with a retailer. Collaborative Category Management, Demand and Inventory Planning Synchronization, Trade Promotion Management and Supply Chain Execution Collaboration require alignment with the overall value chain, including Sales, Marketing, Product Development and Finance. Following are additional areas that must be aligned within the Demand-Driven Enterprise and how they would benefit.

- ***Financial Planning:*** Improved forecast accuracy will provide category management teams with more accurate budget for planning purposes. Increased collaboration on retailer DC and store receipt plans will allow more optimal use of capital.
- ***New Product Development:*** Increased collaboration internally among Product Development, Sales, Marketing and Supply Chain and external collaboration with retailers will provide strong feedback for improvement or variation of the current product mix.
- ***Marketing Optimization:*** Visibility of inventory requirements (base and lift) across store, catalog and web sales channels will be improved. In addition, integration of the shopper marketing strategy will better align consumer marketing programs with trade strategies and incentives that lead a shopper to purchase.
- ***HQ Planning and Pricing Optimization:*** Store POS data will assist in managing price elasticity and determine optimal pricing strategies throughout the product's lifecycle; assist with segmentation strategies (national vs. account based); and identify the most effective promotions and tailor budget to drive growth.
- ***Linking Available-to-Promise (ATP), Capable-to-Promise (CTP) and Available Allocated-to-Promise (AATP):*** ATP and CTP capabilities are not new practices. By linking the actual production schedules with the demand forecast, inventory and shelf plans, a real-time view of product availability can be used for in-season inventory management to better meet customer needs.
- ***Network & Inventory Optimization:*** Synchronizing demand and inventory strategies in the Demand-Driven Enterprise can help facilitate that correct inventory, production and distribution decisions are made throughout the supply network.
- ***Sales & Operations Planning (S&OP):*** The ability to share demand forecasts, inventory plans and production schedules through a Demand-Driven Enterprise is paramount to enabling S&OP planning processes and gaining a mechanism for resolving issues as well as capitalizing on opportunities.
- ***Production Planning & Scheduling:*** Production and raw material requirements are more closely linked to consumer demand. New processes and technology enable planners to make more informed decisions when developing plans and making changes to their schedules.

Manufacturing – Demand-Driven Supply Network: Demand synchronization entails tapping into POS data directly from the retailer. POS data provides CPG companies with the ability to understand trends at the shelf level. POS data enables more informed and accurate analytics to be performed by Sales, Marketing and Demand Planning departments. Additional forecasting and demand-sensing processes and technologies can further evaluate daily shipment history, POS and customer orders, better identify both short- and long-term demand patterns, and enable timelier in-season response.

A higher degree of forecast accuracy has a direct impact on the rest of the supply chain since an accurate forecast is the foundation for developing a time-phased, multi-echelon replenishment plan. The forecast can be combined with other key data points from the retailer — such as product inventory levels at the store, product already in transit or on-order, product at the retailer's warehouses, desired customer service levels and supporting safety-stock policies — to calculate net inventory requirement for each node within the retailer and CPG supply chain.

To ensure the consistent success of the demand-driven plan, retailers and CPG companies must collaborate on demand and shipment plans within the execution window. Retailers have vital information on demand influencers such as discounts, promotions and ad campaigns, and these programs are constantly changing, often within the manufacturing freeze window duration. Having visibility into the retailer's inventory strategy and POS data enables CPG companies to manage inventory and resource constraints and produce an executable deployment plan to meet projected consumer demand.

While no company in the marketplace has fully implemented a Demand-Driven Enterprise, many are exploring how they can bring to the "demand-creation" functions the same standardization, interoperability and flexibility they have brought to their supply chain functions. The continued market pressure distancing CPG companies from direct access to consumers will require organizations to have this capability to remain competitive. The key to implementing the capabilities required for a Demand-Driven Enterprise is to use an integrated approach. Past technology and analytics constraints are now removed, making the use of a common set of metrics as the basis of communication possible.

Integration Architecture

The financial accuracy of trade planning can be improved by leveraging process and technology to focus all decisions within the context of the financial framework. When focusing on demand, the sequence and timing of incorporating various forms of demand signals into the financial planning

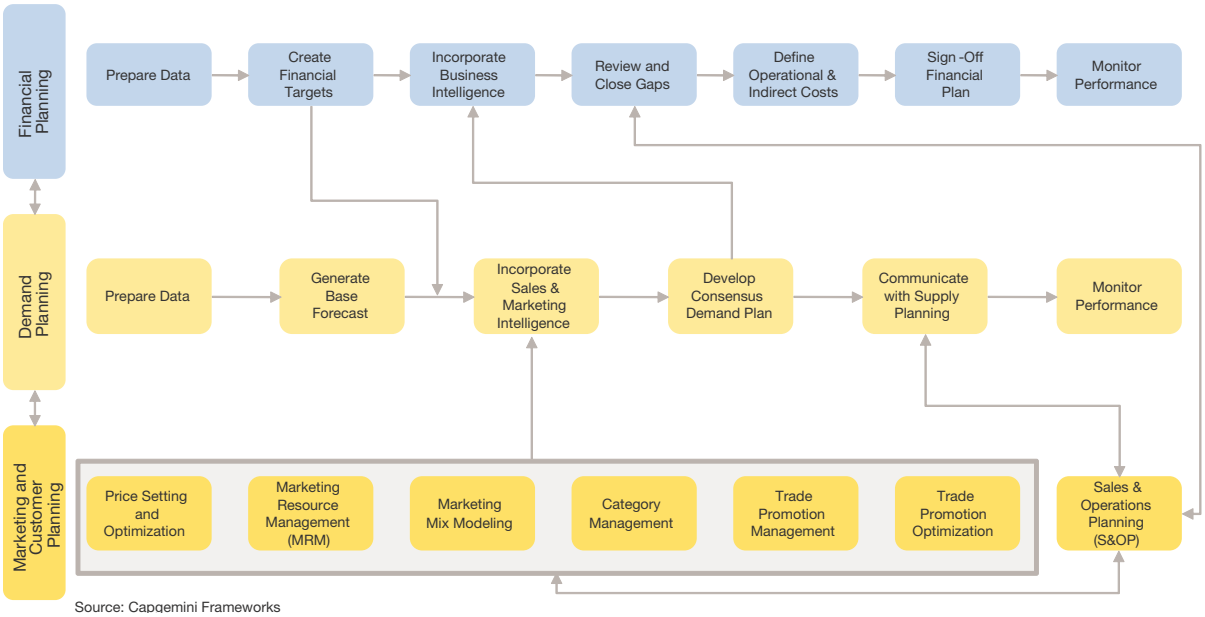
activities is perhaps the secret weapon to improve information flow. Figure 13 shows how different processes within financial planning and customer planning integrate around the creation of the demand plan. Key process interface points include:

Incorporating sales and marketing intelligence: Taking the broader financial targets developed within the financial framework as context, incorporating sales and marketing intelligence identified by an integrated analytic framework enables a consensus demand plan to be developed. This plan can then use business intelligence insights produced in the financial planning process to identify and close gaps. Using agreed-upon metrics driven from a coordinated framework makes it possible to revise the plan as required.

Incorporating S&OP inputs: An informed demand plan can drive a more accurate cost plan during the final stages of the financial planning process. Again, the broader set of common metrics enables faster, more efficient iterations of S&OP variances as they occur.

Thus the informed demand plan serves as the unifying driver across the enterprise. Driven by the consumer, informed by agreed-upon data and forecasts, and using common metrics to communicate enables each participant to spend more time focusing on increasing profit.

Figure 13: Financial Framework Architecture **Source: Capgemini**



Source: Capgemini Frameworks

Conclusion

The Influence of Sound Planning on TPO and Enterprise Results

The Financial Framework for Trade Promotion Optimization enables consumer products companies to focus on any combination of trade promotion, supply chain or financial key performance indicators to improve their cash-to-cash cycle, including: improved sales volume (reduces inventory carrying costs), reduction of days deductions outstanding, improvement in forecast accuracy and trade spend ROI. While it is difficult to estimate the effect of change from adjusting an individual variable, because all are interrelated, improving any one will result in a shorter C2C cycle for a company.

Alignment of strategy, goals and tools, a cornerstone of TPO, was investigated for trade marketing at each stage from budgeting/planning through sales. High performers' results suggest that a disciplined planning process within a financial framework is positively related to performance not only at the field level, but also at the very earliest stages of planning, Financial influence at the last stage only (post-deal/event) can have a negative effect on organizational performance, due to the opportunity costs associated with poor trade investment decisions and vehicles.

In addition to directly affecting a manufacturer's bottom line, trade planning and execution will determine brand health and competitive effectiveness going forward.

Demand signal determination and internal communication of measures related to better forecasting method determination is critical. Emphasis on communication of the results to the rest of the constituents inside an organization seems to be occurring along the value chain so that Sales, Marketing and Supply Chain play increasingly overlapping roles to achieve more integrated ways of driving Trade Promotion Optimization.

This research explored the necessary components for effective use of budgeting and planning methods to align internal, then external partners to assess the right marketing mix (including social media and digital), pricing and offers to optimize promotional ROI.

Today, responsibility for innovation has become more widely diffused. Brand and category innovations are conducted simultaneously to create a competitive advantage. In a Demand-Driven Enterprise, functions along the value chain are sharing responsibility to achieve higher levels of enterprise integration, from concept to customer, to drive greater return on marketing investment. Companies using the Financial Framework for TPO and experimenting with new media will benefit from a better understanding and improved retail execution and hence will more quickly adjust for continual improvement.

Trade Planning and Execution Post-Adoption of TPO

There is one fact that has changed the way we look at trade planning. Technology has enabled consumers to have access to information on a scale and with directness that has never been possible before. In addition to directly affecting a manufacturer's bottom line, trade planning and execution will determine brand health and competitive effectiveness going forward. Trade Promotion Optimization has moved from a stretch goal to an essential capability all organizations must master.

To leverage TPO, we believe the following practices will become industry standard:

- Use of real-time, consumer-oriented data, or "demand signals" — including consumer demographics, purchasing behaviors, social and direct inputs, crowdsourcing, point-of-sale transactions and syndicated research — will be incorporated into predictive techniques.
- Modeling techniques, driven from data common and agreed to across the Demand-Driven Enterprise, will be used to predict the financial and supply impacts of promotional programs.
- Feedback mechanisms will be more real time and will allow for more timely adjustments to promotional programs. As a result, promotional programs will become more results based and have the ability to be modified mid-promotion.
- The traditional definition of promotion will be expanded. Direct-to-consumer promotions will now join traditional marketing and retail trade programs. This offers an opportunity for manufacturers to connect to their consumers and build brands that have been diluted by the advent of multiple media outlets and national retailers.
- Data-driven scenario planning will become the norm. Statistical modeling provides the insights to do a better job balancing the trade-offs in trade promotions, including discount, price, time frame, product mix and in-store placement. The analysis is performed by customer and deal, by store and individual week. This output enables appropriate tactical actions such as the elimination or curtailing of unsuccessful events or the improvement of future events.

- At the same time, a greater understanding of how and why consumers respond to different attributes within a promotion will allow for improved event design in the future.
- Core trade promotion management activities (planning, execution and tracking) will be integrated with retail execution through a merchandising audit and retail audit. This capability serves two purposes. First, it provides checks and balances for making sure that the promotion is executed in the store as planned. Second, it helps identify the gaps that exist between planning and execution activities and how key learnings can be fed back into the planning and negotiations next time around.

The ability to manage these diverse dynamics will force companies to look beyond ROI as the primary driver in trade decisions, and tie all decisions to an integrated financial framework that looks at the full effect of those decisions on the enterprise. Today's typical ROI analysis skews both the cost and revenue because of hidden expenses, mark-downs, scrap and returns. The analyses of pocket margin by customer/product combinations, cash-to cash and Economic Value Added are now feasible.

These enabling processes and technology will move trade planning and execution from an inward and distribution-focused activity to one that is integral to building successful and profitable brands.

With a Demand-Driven Enterprise, hidden costs are exposed and the CPG manufacturer views the total event cost and true event lift, as well as the effectiveness of promotions on consumer demand. The additional analysis by Sales/Marketing/Account Management of existing promotions and future promotions allows planners to provide Supply Chain with a more informed picture of normal demand vs. lift demand due to promotional activity. Collaboration on the full demand plan translates to a better, timelier response to consumer activities.

These enabling processes and technology will move trade planning and execution from an inward and distribution-focused activity to one that is integral to building successful and profitable brands.

We expect you will apply the research findings, strategies and tactical plans outlined in this paper to your existing processes, enabling you, your team and your trading partners to achieve maximum results from your collaborative promotion optimization efforts.

How Teams Operate and Compete Differently After TPO Adoption

One of the most important steps when adopting TPO is developing a strong strategy; a plan of action designed to achieve your goals. The most common mistake companies make when deciding to adopt TPO is to rush through the planning process. A TPO implementation is not just about improved reporting, charts and automating processes. TPO is a tool to help you make critical promotion investment decisions with your trading partners, and enhance profitability and shopper/consumer service and value. Just as each company or channel is different, each TPO adoption strategy must also be different, designed to effectively enhance the workflow of your company, brands and trading partners.

Define your current workflow. Take time to document the daily work flow of Sales, Marketing, Finance and Supply Chain. Collect details on current paper processes and determine what information is being accessed, reviewed and shared/analyzed.

Identify what works well and what doesn't. This step will define what your TPO solution needs to do for you. Discuss where you'd like to see changes in work flow and performance and what they would look like.

Define your desired outcome. Think of the future and what you are trying to accomplish. Define your plans for growth, such as identifying new partners, new media and/or customer segments. Recognize at any given time, your desired outcomes are volume, profit, share or other. Ask yourself if your long-term trading partner performance and financial goals will require additional or more timely data, and evaluate how efficient data integration will impact these goals.

Do your research. Conceptualize how TPO can help you meet your goals. Talk to those who are migrating to/using TPO. Learn which systems can provide you with the features you need. Get hands-on experience with the systems you are considering, and learn for yourself if the system is easy to use and right for your team. The best place to learn, network and derive value is through membership and participation with POI.

Knowledge Partner Perspective

Predictive Trade Planning: The Front-End of Integrated Business Planning

Consumer Goods (CG) companies are increasingly adopting the process of Integrated Business Planning (IBP) — a new approach to Sales & Operations Planning (S&OP) that goes beyond merely balancing supply and demand, to focusing on meeting overall financial goals with respect to revenues, costs and profits. With this new focus on IBP comes the realization that the management and optimization of trade promotions is a critical part of the IBP process. Oracle's Predictive Trade Planning and IBP solutions can play a key role in placing the trade management process at the front end of the IBP process.

Trade Promotion and the 'S' IN S&OP

When originally conceived over thirty years ago, the practice of S&OP was intended to be truly cross-functional and involve Sales — the S in S&OP — Marketing, Finance and Operations. However, in practice S&OP is often driven by Operations with the other areas taking secondary roles. Given the huge swings in demand caused by trade promotions (usually planned by Sales), it's no wonder that many CG companies suffer from high inventory levels, poor on-shelf availability and high logistics costs associated with trade promotions.

In addition, S&OP was originally intended to be focused on helping companies achieve financial performance goals. In practice, S&OP is often narrowly focused on balancing supply with demand, without explicitly taking into account the impact on revenues, costs and profits. Given companies' huge expenditures on trade promotions (both in terms of funding and logistics) and the huge variations in event profitability, it's virtually impossible to manage financial performance without tightly linking promotion management with the S&OP process.

Thus companies embarking on strategic IBP initiatives are placing promotion management at the front end of the process.

The core of Oracle's IBP solution is the Demantra Real-time Sales and Operations Planning (RT S&OP) product. With rich pre-seeded data streams, metrics, worksheets and workflows, Demantra RT S&OP allows companies to reach a consensus forecast and monitor performance to plan with

exception management and alert capabilities. What-if simulation capabilities allow users to understand and compare alternative demand and supply scenarios. With pre-seeded financial metrics, RT S&OP allows operational plans to reflect top-down financial goals, and allows users to see the financial impact of changes to operational plans.

To enable true IBP, additional Oracle products complement Demantra RT S&OP to provide a comprehensive IBP solution:

Oracle Advanced Planning Command Center provides Executive, Demand, Supply and Financial Review dashboards, allowing executives to monitor the overall IBP process with key performance indicators and the ability to drill down to underlying planning applications.

Oracle Agile Product Lifecycle Management can be used to integrate the new product introduction process into IBP. Product ideation concepts in Agile can be modeled in Demantra to predict new product demand. If new products are late to market, promotions can be planned in Demantra to make up for any revenue shortfall.

Oracle Hyperion Financial Planning can be used to integrate financial plans in Hyperion with operational plans in RT S&OP.

Oracle Supply Planning products can be used to take decisions made as part of the IBP process and drive them into operational planning and execution processes. The growing adoption of IBP will help CG companies achieve the original intent of the S&OP process — helping companies achieve their revenue and profitability goals. Key to an effective IBP process is making trade management the front end of IBP. Oracle's Predictive Trade Planning and IBP solutions are ideally suited to this goal.

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About the Promotion Optimization Institute (POI)

POI brings together manufacturers, retailers, solution providers, analysts, academics and other industry leaders. Members of POI share cross-functional best practices in both structured and informal settings. Additionally, members benefit through our industry alliances, the CCM program, and the Promotional Collaboration Capability Matrix (PCCM).

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: www.P-O-I.org.

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