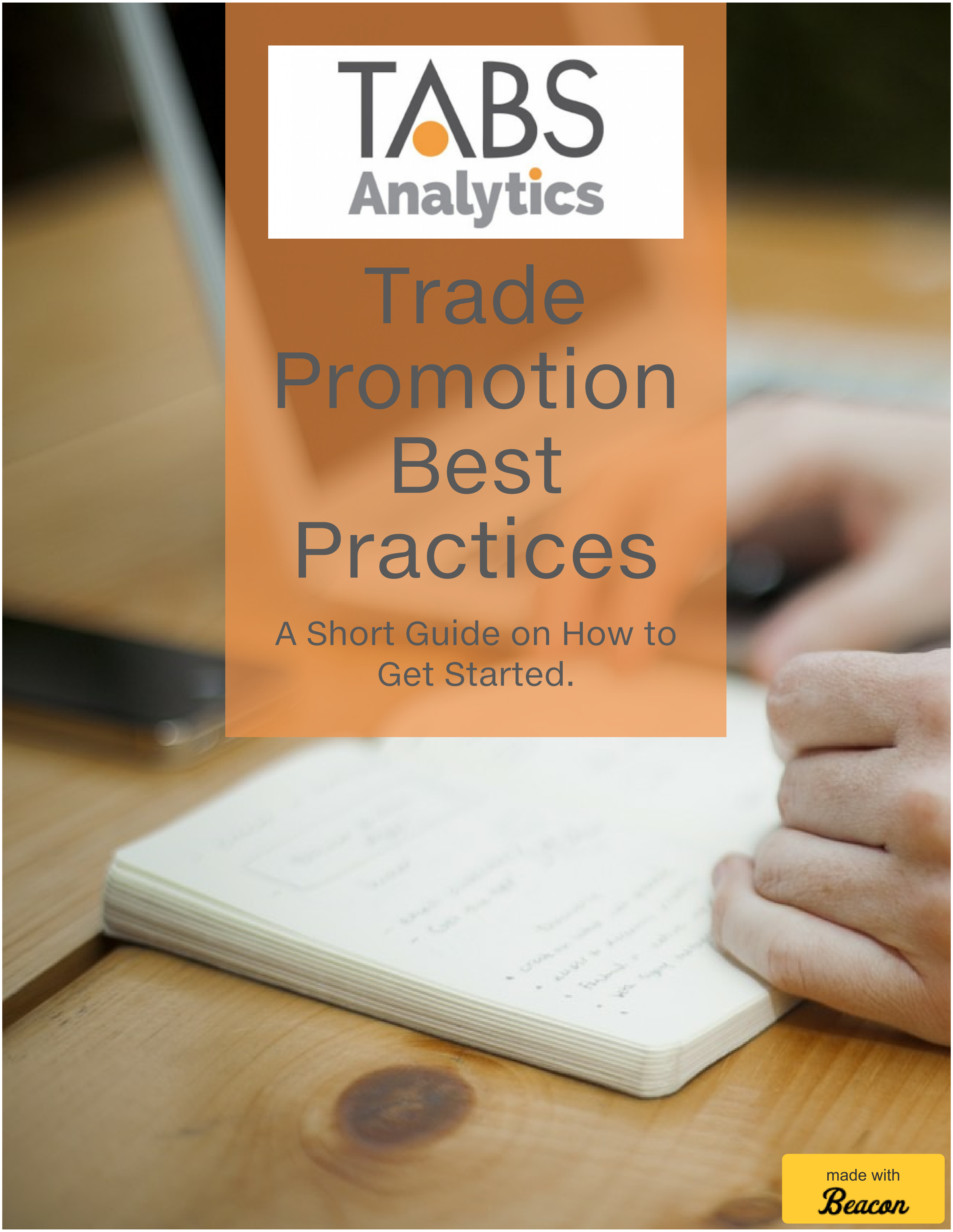

TABS Analytics

Trade Promotion Best Practices

A Short Guide on How to Get Started.

Table of Contents

1. Getting Started
   A Basic Introduction to Trade Promotion Optimization
2. Chapter 1: Metrics
   The 4 Most Useful Metrics in CPG Trade Promotion
3. Chapter 2: Measurement
   Getting Your Baseline Sales Right in CPG Trade Promotion
4. Chapter 3: Harmonization
   Why Data Harmonization Is Critical In Trade Promotion
5. Chapter 4: Tactics
   6 CPG Trade Promotion Tactics that Drive More Sales
6. Chapter 5: Planning
   Two Important Things to Remember in Trade Promotion Planning
7. Chapter 6: Execution
   5 Self-Defeating Barriers to Overcome in Trade Promotion Execution
8. Best Practices Summarized
   Bringing It All Together

9. How To Make Money With Trade Promotions

To Learn more, read our 3 Step guide to Trade Promotion Optimization (TPO)

Getting Started

A Basic Introduction to Trade Promotion Optimization

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The concept behind a trade promotion is simple. You spend money with a retailer to promote your product with the expectation of deriving a tangible benefit: increased sales and profits.

The mechanics, however, are more involved. In order to ensure that you're taking the right steps to drive more

sales, optimizing your promotional plans is key. With trade promotion spending accounting for 15-20% of sales revenues, it’s even more critical to get this process right.

Trade Promotion Management versus Trade Promotion Optimization

The mindset of many manufacturers toward trade promotions doesn't always make optimization easy. Typically the industry has just divided the process into two steps — Trade Promotion Management (TPM) and Trade promotion Optimization (TPO). This basic paradigm can get in the way of making the most of any trade promotion plan because it will likely lead to your overlooking of vital components of the process.

Taking a more granular approach will produce a better payoff. Breaking the process down differently can help you maximize your efforts, and will guarantee that all stakeholders are speaking the same language. Consider the following approach to trade promotions instead.

What is currently called Trade Promotion Management is actually:

- **Execution** – Promotional information is entered into some type of software system.
- **Tracking** – Users can follow the utilization of the promotional funds over

time.
- **Reconciliation** – Payments to retailers for promotional performance with the appropriate accounting entries.

There is a notion among companies that they need to iron out every detail of TPM before they even consider TPO, but this is erroneous. TPO is really the learning stage of how you change the way you are doing things (and how you make more money) – and you can start doing this now.

What do we mean by Trade Promotion Optimization?

What is currently called TPO comprises five distinct steps:

- **Data harmonization** – The alignment all of your data sources (sales data, spending, performance dates and qualitative information), so that the results can be analyzed.
- **Measurement** – A formal process to measure the results of specific promotional events.
- **Strategic analysis** – An aggregated view of the individual events analyzed in the measurement stage.
- **Planning** – A process to plan for future promotional activity using the learning from the strategic analysis stage.
- **Optimization** – A mathematical model that provides the ability to generate the best promotional calendars based on a series of constraints identified by a user.

What Problems Prevent You From Optimizing Your Promotions?

Breaking your Trade Promotions Optimization down in this manner significantly improves your ability to act on the data you're collecting in an ever-improving way. After all, you're never going to run only a single trade promotion program over the entire life of a brand. As such, you will continue to learn as you go.

Seeing the trade promotion process as a long-term, multi-year opportunity to optimize is the first step toward improving your ROI.

But there are problems that face the Trade Promotion Optimization process, and these problems are what has kept the vast majority of large CPG players from having even a minimal TPO capability. Specifically these are the hurdles that you will need to overcome:

- **Good Sales Data:** If you are you using shipment data to gauge the efficacy of your trade spend, you are off on the wrong foot already. In fact, throw it out entirely. There's one reason: Diversion. Accept it as a truism that weekly retail point of sale data is the only way to accurately measure trade promotion effectiveness. Also accept it as a truism that any supplier that claims shipment data is essential to the TPO process is not an expert in data, analytics, or the CPG industry. Retail sales data is easily attainable, either through the syndicated data suppliers like Nielsen or IRI, or directly from retail customers such as Walmart, Target, Home Depot, Babies 'R Us, Staples or dozens of other retailers.

- **Misguided obsession with getting good spending data:** Can't get to anything close to good spending data? No problem, you can still measure promotional effectiveness and model future promotional lifts without spending data. In fact, TABS has often stated to clients that their initial Strategic Review should be done *without* spending data. The goal in this initial review is to accurately estimate the effects of various promotional options. Once we can do that, we can then back into the maximum amount you should be willing to spend to get that level of sales lift. As an ongoing managerial matter, we will want to get accurate spending data and promotional ROIs to confirm that promotions are being run correctly. The first promotional review should be a "no judgment zone" where there are no negative consequences to bad promotional execution. Assume everyone has done things poorly, and we are starting from scratch right after there is agreement on the Strategic Approach going forward.

- **Lack of Skill in Data Harmonization:** Most software vendors are just that, software vendors. They can program exactly what you tell them to do, and most of them have really slick front-end tools to visualize the data. Unfortunately you never get to that slick data with these lumbering software vendors (and you know who they are) because they are not experts in harmonizing disparate sets of data. Why? They usually lack the two core elements required to harmonize data: experience in harmonizing data and understanding of the business issues that need to be properly coded into the data. Here's an example: a software vendor that agrees to build item-level promotional measurement capabilities for 2.6oz Degree Antiperspirant doesn't understand CPG retail. Retailers rarely promote single items of Degree; they typically promote all items of the same price point, size or even the entire brand. Build the database around your level of analysis instead of placing an unnecessary level of analytical and data processing burden on everyone. So who's left with cleaning up your database on product, time, markets and measures? Usually the client. It's akin to a plumber coming in to tell you what's wrong with your sink, and then leaving it to you to fix it. With most of us in that situation, chaos will ensue. (I can just see some Demand Planning schnook shaking his head violently disagreeing with the premise that item-level detail into the promotion measurement process is unnecessary. Hey Schnook, there are other ways to get to accurate item-level forecasts without clogging up the Promo Measurement tools with superfluous data).

- **Organizational Micromanagement:** Most people at big companies would just call this "getting alignment" when 20+ people are on the steering committee to create the TPO specs. I don't have an easy answer on how to overcome that except for an autocratic CEO laying the hammer down on 3-4 smart people to figure it out and telling everyone else to get out of their way. It's no coincidence that companies with $500MM-$1B in sales have a much easier time at implementing TPO; they have fewer backbenchers chiming in on what to do. The last three TABS Group TPO implementations have taken 13, 6 and 4 weeks, respectively (notice a trend?). I've heard three speeches from Mega CPG on their "journey" to TPO. *All* of them took 3 or more years to implement.

- **Good Complementary Data:** Maybe this is misclassified as a hurdle because some obvious flaws in syndicated baseline sales estimates and tracking of causal data such as display levels don't seem to deter companies from charging ahead on their TPO mission. In the off chance the results actually transpire, however, the credibility of the analysis is often scuttled from members in the field who immediately identify odd baseline spikes that underrepresent the true incremental sales or understated Display ACV that don't give them due credit for promotional execution. Once the credibility of the analysis is undermined at the field level, there is almost no chance that the promotional measurement tools will be actually used. Here's a partial list of where you will experience flawed data: syndicated baseline sales, syndicated Display ACV's, Weekly or 4wk ACV, Percent Store Scanning in Retailer POS (understates real distribution), and equivalized volume (retailers don't track ounces, they track units…and that’s what consumers buy).

How do you know when you're doing it right

Fortunately, there are a number of steps you can take to avoid the aforementioned pitfalls, and the aim of this book is to acquaint you with them. Throughout the remaining chapters, you will learn the following:

- The most useful metrics to track in trade promotion.
- Accurately computing your base sales.
- Harmonizing your data (this is absolutely critical for accurate results!).
- The six most effective trade promotion tactics for really ramping up your sales.
- Moving from theory to practice: the basics of Trade Promotion Planning.
- Trade Promotion Execution: the 5 barriers to avoid.
- We'll conclude with a set of Trade Promotion best practices.

Gartner Report: *Vendor Panorama for Trade Promotion Management in Consumer Goods, 2014 (Published 28 March 2014)*

Chapter 1: Metrics

The 4 Most Useful Metrics in CPG Trade Promotion

TABS Analytics

It All Begins with the Metrics

When sitting down with new clients, TABS guides them through the six essential elements of managing trade promotion. Each successive step builds on the one before it, and they are all critical for managing and optimizing your trade spending.

- Correct Metrics
- Correct Measurement
- Correct Data Harmonization
- Tactics
- Planning
- Execution

This set of best practice information is unique in the CPG industry. It has come from analyzing twenty-plus years' worth of trade promotions, over 200,000 of them in all.

Dr. Kurt Jetta, CEO and founder of the TABS Analytics, has refined this process over a period of many years, in his comprehensive study of trade promotion of packaged goods companies in nearly every category and mass market retailer. Over the course of this book, we'll be visiting each of these elements in detail. We shall begin with the foundation of TPO, using the correct metrics.

The Trade Promotion Problem

Before we get into specifics about correct metrics, let us first take a moment to clear up current thinking about trade promotion, and how we propose to revise it.

Presently, the conventional wisdom in the CPG industry separates trade promotion practices into two distinct branches:

- Trade Promotion Management (or TPM), the day-to-day implementation of trade promotion practices, and
- Trade Promotion Optimization (or TPO), which is the process of refining those practices. We wrote an article on this in 2014, which you can find here.)

We propose that splitting TPO actions into four different tiers is a more effective and comprehensible approach. Obviously, the tactical side remains:

- Trade Promotion Implementation (or TPI, formerly TPM), the standard day-to-day execution of promotion practices.

But then we have the following four steps encompassing optimization:

- Trade Promotion Measurement (the “new” TPM, if you will) is the periodic testing of those practices, and figuring out what works vs. what doesn’t.
- Trade Promotion Best Practices (TPB), where we take that knowledge and refine it into a set of theoretical best practices.
- Trade Promotion Planning (TPP), where we take those best practices and incorporate them into our workflow. This can include customized software design and new general processes.
- Trade Promotion Optimization (TPO), where we work to create an optimization model, and actually automate those new processes as best we can.

This is an iterative process, where we’re constantly executing, measuring results, refining practices, automating them, and on and on.

The 4 Metrics - What Is Being Measured?

In our client relationships, we’ve seen various companies attempting to measure different aspects of their business, from retail dollars, to shipment dollars, to equivalized volume (rolls/sheets for paper, pounds for candy etc.). This is where things start to get sticky. In fact, we covered this issue in a 2015 blog post on ship-to-consumption analysis.

Quality trade promotion analysis is impossible without the correct metrics.

If you start by measuring the wrong things, all analysis falls apart. The four metrics you need are: **Consumer Units, Revenue, The Incremental Factor and Spend Ratio.**

1. Consumer Units
The *key* to keeping measurement simple and accurate is to measure exclusively in **Consumer Units**. If you want to be consumer-centric, then you need to measure the same way that the consumer buys.

If we need to equivalize later on to analyze certain things, then we do it later on. But the most important thing is to convert those consumer units to pounds, cases, rolls, whatever. This is a downstream process.

2. Revenue
We then take that unit count and create a measurement called **Revenue**. This is going to serve as the foundation of how we evaluate our incremental (promotional) sales vs. our base sales. This not Revenue in the way it is typically used, which is total Net Sales shipped. Rather our Revenue definition is the shipment value of the consumer units sold at retail. You get ZERO credit for loading inventory at your customers.

Here's an example of ten weeks' worth of weekly POS data:

In the three weeks where there's obvious promotional activity, we'll concentrate on Week 9, the one that shows the largest spike.

The way we define Revenue is as follows:

Net Wholesale Price x Retail Units

As an example, if the net cost was $3.50, and we sold 600 units, our Revenue would be $2,100 (3.50 x 600).

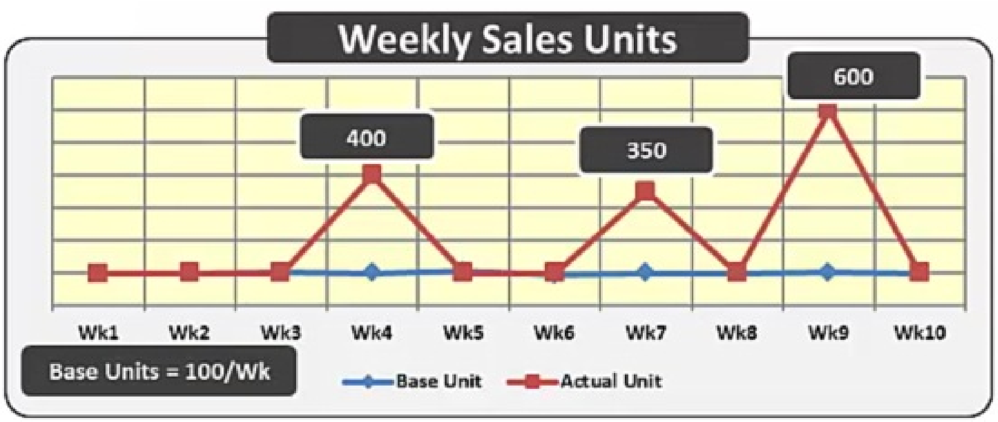
3. The Incremental Factor

We'll come back to Revenue in just a few moments, but first, let's talk about another important metric, the **Incremental Factor**.

This is probably the single most strategically important measure in trade promotion analytics…and almost nobody uses it!

The Incremental Factor is the *incremental Revenue divided by the total Revenue*. It can also be calculated as Incremental Units divided by Total Units. Revenue is better to use because it reflects differences in Net Pricing across a brand's product portfolio. Incremental Factor effectively answers the question, "What percentage of my business goes away if I stop promoting entirely?"

Let's return to our example (here we are using Units):



Those spikes of 400, 350, 600 represent the number of units we sold over and above our day-to-day base sales. In this example, let's say our base sales constitute 100 units per week.

Let's calculate our total units. We've got seven weeks without any appreciable spikes:

7 x 100 = 700

We then add the three weeks of promotional activity:

700 + 400 + 350 + 600 = 2,050 total units.

Now, let's compute our base units exclusively:

100 base units per week x 10 weeks = 1,000 base units.

Clearly, our incremental units constitute total units minus the base:

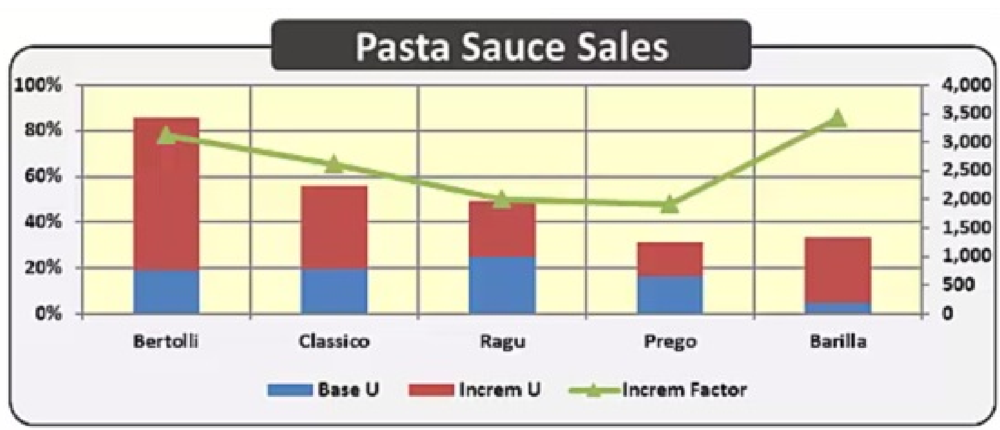
2,050 – 1,000 = 1,050

Remember, our incremental factor is comprised of the incremental units divided by the total units:

1,050 / 2,050 = .51, or 51%

The result is clear. If I stop promoting tomorrow, slightly more than half my total business disappears. (Note: this statement leads to many readers likely saying, “How do we know it goes away entirely? Won’t it just be made up on other brands or in future weeks?” The answer is no. It’s lost entirely, and we will address that question in more detail in later blog posts. For now you can review the actual academic research that proves the incrementality of these sales here.)

In short, Incremental Factor is *the* simplest way to tell just how dependent your business is on promotion. Let’s look at pasta sauce as an example.



As you can see, the entire category is highly dependent on their promotional activities. Even Prego, the brand with the lowest Incremental Factor of the top five brands, still depends on incremental sales for nearly half of their business.

4. Spend Ratio

The final metric that’s vital to assess is your profit, which we will measure using **Spend Ratio**. Spend Ratio is computed by taking your *Incremental Revenue and dividing by total Spend*. This can be done for a single event or any aggregated period, such as a quarter or year. Our goal is to simplify here, so we’re not going to mess around with manufacturing costs, logistical costs and other variable costs. Our break-even Spend Ratio (SR) is the reciprocal of your internal Margin Percentage per unit (1/m).

In addition to simplicity, this measure also has the benefit of being able to be shared with retailers because no sensitive internal costing information is being revealed. It can be easily communicated: “Look Mr./Ms. Buyer, I need to generate $x for every dollar I spend, and the current deal structure isn’t doing that. If you can help me get to that objective by shaving some of your margin I can go back and get more money from my management.”

As an example, let’s say that the total cost of three events is $1,500.

You’ll recall that our total incremental units were 1,050. We’ll multiply that by the net wholesale price of $3.50 to get $3,675. So, here’s the equation:

$3,675 (IR) / $1,500 (IS) = ***2.4 Spend Ratio***

Put another way, if the internal margin is greater than 42% (1/2.4), then the event is profitable.

Conclusion

To summarize, we’ve outlined the more most useful metrics to collect in the trade promotion process, namely:

- Consumer Units
- Revenue
- Incremental Factor
- Spend Ratio

Of course, you won’t be able to compute most of these accurately unless you can precisely calculate your base sales. The next chapter takes you into the specifics of correct measurement, where you’ll be able to establish an accurate baseline.

Later on, we'll also dive into the world of data harmonization, where you’ll learn to improve the accuracy of results by standardizing on core units of measurement and integrating different sources of information.

Chapter 2: Measurement

Getting Your Baseline Sales Right in CPG Trade Promotion

TABS Analytics

Introduction

In the previous chapter, we stressed the importance of collecting the right metrics as the core foundation of good trade promotion analysis and optimization. We stated that measuring in consumer units is the best way to keep a simple and accurate measure of what you're selling. From this, we showed how to compute *revenue*, *incremental factor*, and your *spend ratio* (see definitions here).

But this is only the beginning.

Getting Your Base Sales Right

For one, you'll have no idea how much your trade promotions are making until you can accurately compute your baseline sales, also known as your base (see definition here).

You may say, "But my Nielsen (or IRI, or SPINS, etc.) data already shows me my base sales. Why can't I just use that?"

First of all, you may need to include point-of-sale data from several of your retail customers, where pre-computed base sales data isn't available. Second, and more importantly, the base sales data from these syndicated sources are often inaccurate.

We can see an inaccurate baseline when we see one of three things: 1) excess volatility in weekly baseline sales, 2) baseline consistently above or below actual sales when there is no promotional activity, and 3) phantom spikes, when the baseline jumps up during promotional weeks. The phantom spike effect (technically known as autocorrelation) is theoretically and intuitively impossible. Without promotion, you expect baseline to be roughly the same amount as the prior, non-promoted week.

And if you don't have an accurate assessment of baseline, then your entire evaluation is guaranteed to be flawed. It's as simple as that. Many of you will say, "But the baseline estimates are usually close enough, they are an industry-standard metric and we are already paying for the data. So why go through the extra cost and hassle to get a better baseline?"

There are several points in response to that type of statement.

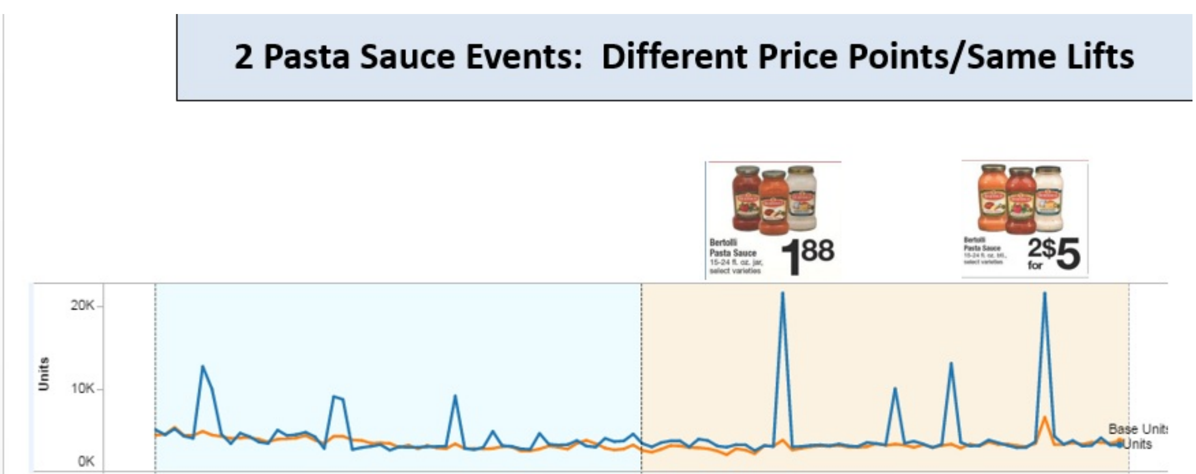
First, there is no controversy in the industry that these flaws exist. TABS Analytics CEO, Dr. Kurt Jetta, has visited several dozen companies where this issue came up, and there is never any disagreement that phantom spikes are prevalent in baseline data.

Second, for aggregated time periods such as quarter, half or year, the baseline data is probably good enough to use for macro base vs. incremental type of analysis, as majority of baseline estimates provided in syndicated data are accurate.

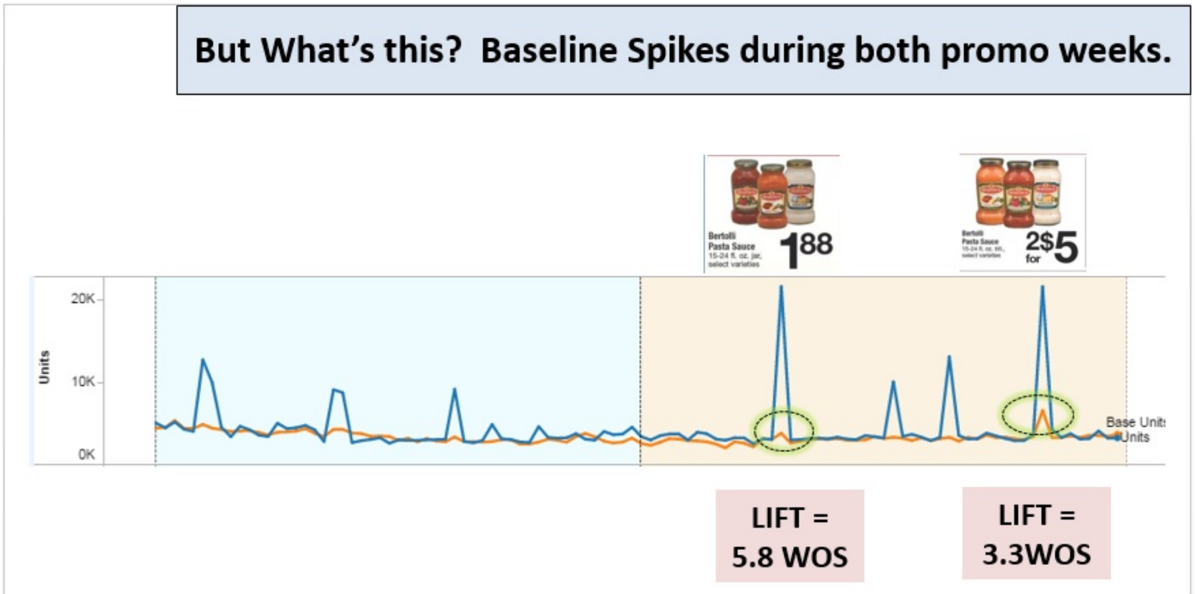
Third, and most importantly, though, bad baseline estimates at an event level can provide bad results that will lead to bad decisions.

An Example

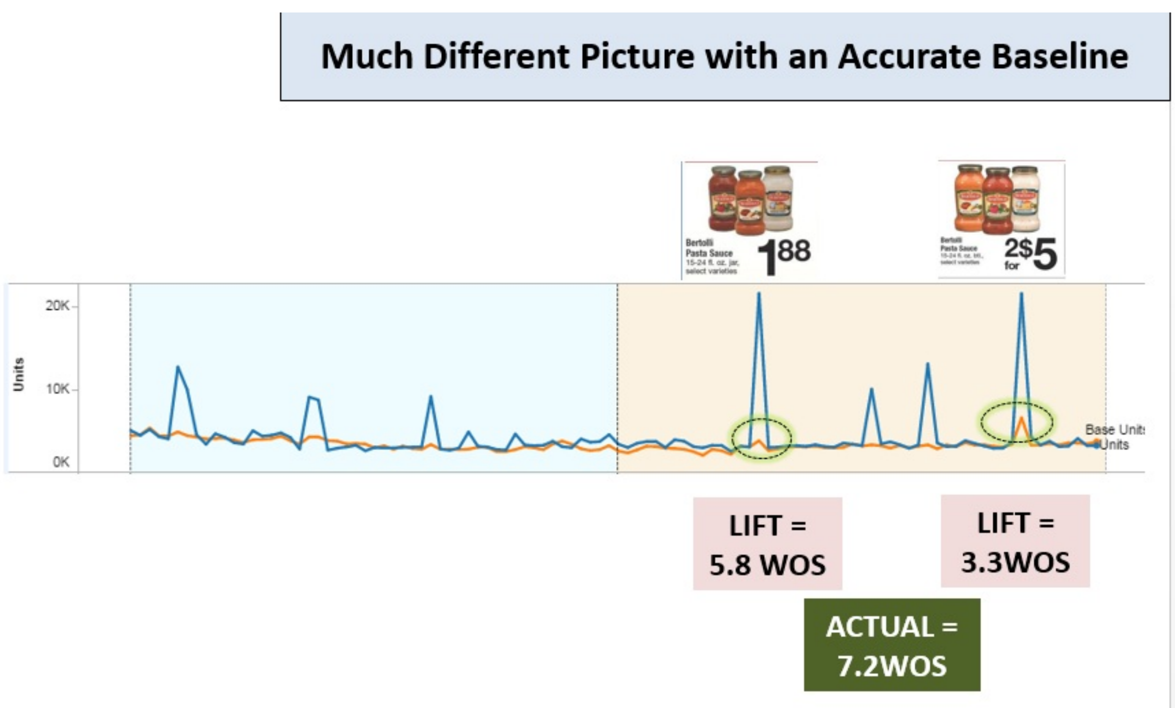
Let's take a relatively common example that was presented by Tim Carrigan, VP of Sales Capabilities for R&B Foods, at the Promotion Optimization Institute (POI) Annual Conference in April 2015.



We see two similar sized ads for Bertolli Pasta Sauce. The price points and promotional discounts are different from one another, but the lifts appear to be almost identical.



The phantom spikes are obvious, but what's a little more difficult to see – due to the scaling effect – is that the phantom baseline for the 2/$5 event is much higher than the one on the $1.88 event. Consequently, the lift on the $1.88 event looks much better than 2/$5 (5.8 Weeks of Supply vs. 3.3 Weeks of Supply). That's more than double the incremental sales generated! After we bring in the spending, the data will almost certainly show $1.88 is the better tactic in terms of profitability and lift.



With an accurate baseline, the results and the indicated actions are much different. It is a no-brainer to go with the 2/$5. It moved the same WOS as the $1.88, and the buy down costs are most certainly less. Here is a meaningful, real-world opportunity for the company to generate better profitability with a better baseline estimate.

It is also worth noting that there is a bad baseline right before the first big spike. See where the baseline (orange) is consistently below the actual units (blue) for roughly 20 weeks? Again, this is impossible. Over time, the baseline should be roughly equal to actual sales during not promoted weeks. Another technical term: the baseline exhibits what we call *structural bias.* The estimate is consistently below the actual. We have developed a superior alternative to syndicated baselines, TABS AccuBase®, which has been scientifically tested and validated.

Next Steps

In Chapter 3, we'll discuss the importance of data harmonization. Along with calculating baselines correctly, harmonizing your data properly is vital for all the other steps to fall into place to get to an optimized trade spending plan.

Chapter 3: Harmonization

Why Data Harmonization Is Critical In Trade Promotion

TABS Analytics

Besides calculating your baseline sales properly, harmonizing your data is the second "pillar" that supports the foundation for the remainder of your trade promotion best practices.

Data harmonization isn't a fashionable topic, despite its importance in analyzing trade promotion. Everyone talks about “big data” from a software perspective. But big data doesn’t get to be very big without a mechanism for harmonizing it correctly.

Harmonizing Your Data Is Essential

Executing data harmonization properly isn't easy. In fact, it’s probably the single largest barrier placed in front of anyone who wants to plan and optimize their promotional plans. The larger the vendor, the more languages, units of measurement, currency, and individual reporting differences from retailers come into play.

Can we harmonize?

- The spending
- The ad performance
- Images of the ads in question
- The actual scan data

Take a look at these items as an example.

First, we have transactional data through our internal spending system:

C# 0409724 6% Base Coop Minimum Fund $123,264	$12,772
C# 0409724 6% Base Coop Minimum Fund $123,264	$12,772
C# 0409722 1.20% Loyalty Card Program Minimum Fund $31,316	$2,214
C#0441392 Ad 6/29-7/7/12 scan $1.71 .2 oz 6,963	$12,394
C#0441392 Ad 6/29-7/7/12 scan $1.71 Itchy .2 oz 4,977	$1,129
C#0441392 Ad 6/29-7/7/12 scan $1.71 1 oz 2,419	$4,629
C#0441392 Ad 6/29-7/7/12 scan $1.71 contact .2 oz 3,040	$2,411
C#0441392 Ad 6/29-7/7/12 scan $1.71 Cool Red .2 oz 2,179	$2,325
C#0441392 Ad 6/29-7/7/12 scan $1.71 Complete .2 oz 2,271	$4,042
C#0441392 Ad 6/29-7/7/12 scan $1.71 Max .2 oz 6,699	$11,924
C#0441392 Ad 6/29-7/7/12 scan $1.71 Triple .2 oz 4,992	$1,113

C# 0409724 6% Base Coop Minimum Fund $123,264	$12,772
C# 0409724 6% Base Coop Minimum Fund $123,264	$12,772
C# 0409722 1.20% Loyalty Card Program Minimum Fund $31,316	$2,214
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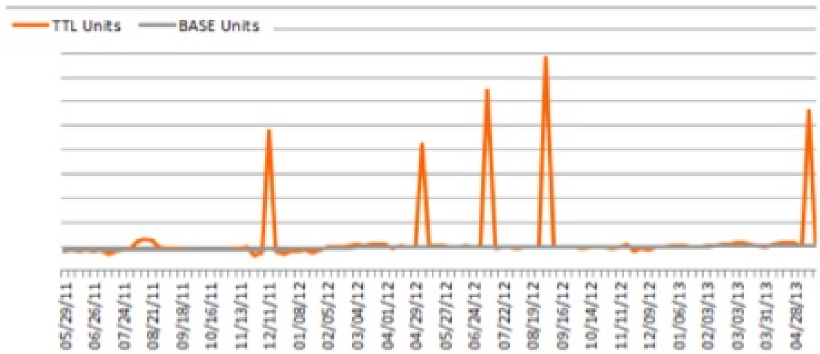
C#0441392 Ad 6/29-7/7/12 scan $1.71 1 oz 2,419	$4,629
C#0441392 Ad 6/29-7/7/12 scan $1.71 contact .2 oz 3,040	$2,411
C#0441392 Ad 6/29-7/7/12 scan $1.71 Cool Red .2 oz 2,179	$2,325
C#0441392 Ad 6/29-7/7/12 scan $1.71 Complete .2 oz 2,271	$4,042
C#0441392 Ad 6/29-7/7/12 scan $1.71 Max .2 oz 6,699	$11,924
C#0441392 Ad 6/29-7/7/12 scan $1.71 Triple .2 oz 4,992	$1,113

Then there’s the actual image:

And finally, we have scanning performance:



Here's the issue: We found that the ending date for all three was different. We've got some work to do here, not just from the perspective of harmonizing the dates, but also things like brand size, spending components, etc.

You may be asking, "Okay. Doesn't this mean that you should have some dedicated TPI software in place before doing any promotional evaluation?"

The short-term answer is "no." You don't necessarily need to have those systems in place to start your evaluations. The process can certainly be a bit more cumbersome, but you can roll up your sleeves and gain those insights immediately.

However, if you're planning for longer-term, and dedicated to the process of being as efficient as possible in the management and optimization of your trade promotions, then we would say "yes." It then makes sense to invest in a software solution, one that can holistically integrate all of those elements of the process.

Redefining the Process

Back in the introductory chapter, we mentioned the conventional wisdom of first focusing on implementation (what others call trade promotion management, or TPM), and then later on optimization (or TPO).

The new workflow we propose first involves measurement (the "new" TPM), simply rolling up your sleeves and getting a decent handle of promotional impact on sales. You've just learned how good measurement involves computing an accurate baseline and appropriately harmonizing your disparate data streams.

In the next chapter, we'll discuss the next phase of the new process, where we define a fundamental set of theoretical best practices (TPB).

Chapter 4: Tactics

6 CPG Trade Promotion Tactics that Drive More Sales

TABS Analytics

Introduction

Now that we've collected various metrics and then measured and harmonized the data, it's time to talk about trade promotion tactics. We've outlined six of them that you should seriously consider to improve your trade promotions. We'll explain each of these in just a moment, but here's an overview of some "do's and don'ts" in the implementation stage of your trade promotions.

Displays Without Pricing Are Rarely Worth the Effort or Expense (Except for Consumables)

We see companies constantly grinding their gears by trying to get out more displays while inadvertently doing things that kill their effectiveness. Failing to include a corresponding price cut is one of them.

Bonus Packs and Consumer Premium Offers Rarely Work

An example of this occurred few years ago when Playtex offered a pack of tampons with a small pack of Advil shrink-wrapped on top. Intuitively, it seems like a great idea as both products are used together by consumers. Unfortunately, It didn't work. The promotion initially enjoyed lots of short-term shipments, but zero shipments once the promotion had concluded.

The occasional exceptions to this rule are Buy 1, Get 1 Free and Buy 2, Get 1 Free offers. BOGO and B2G1F can be quite effective, but the trick is not to over-ship. You need to approach the promotion carefully.

Shoppers Who Use Loyalty Cards Are Among the Most Disloyal of All

Understanding this can be a boon when it comes time to structure the marketing of your loyalty program, assuming you even choose to have one. Statistically, these folks are heavy buyers, and it's certainly worth paying attention to them. But they're also fickle and price-conscious to the extreme. If they're not getting good deals in your store, they go elsewhere.

So What Gets Consumers to Stick Around?

In descending order of effectiveness, the following are the best ways of maximizing consumer lift:

1. **% Off -** What percent off the regular retail price can you offer to the consumer? This offer type is the #1 way to reach customers with a promotion. One caveat to bear in mind: go big, or go home. If you're not prepared to offer at least a 20% discount, then don't bother making one at all, because it won't be effective.

2. **BOGO -** Buy 1, Get 1 Free is also very powerful, but not nearly so as offering a percentage off. Does this mean that offering 50% off is more likely to move product than BOGO, even though they're functionally the same in terms of price? Yes, it does. We see BOGO backfire quite often. There are a few potential reasons for this. It could be that the price points are high to the point that the outlays simply aren't worth the trouble. Particularly with something like nutritional supplements, where the cost is $30 or so per bottle, that's very often a losing proposition for the manufacturer.

3. **Net Price after FSI -** We're seeing quite a lot of this in the market right now, at least partially because it is quite effective at maximizing the lift. However, because you're covering the full cost of redemption with free-standing inserts, you need to start small and follow its progress closely.

4. **$ Savings -** Offering $1 off here, $2 off there is not nearly as effective as the above promotion types. Especially considering that you're usually paying for an at-cost or TPR placement, the negligible lifts don't typically justify the investment.

5. **Multiple Purchase Requirements -** While frequently used, tend to be a deal-breaker. Forcing the consumer to buy 2, or 3, or more to receive any discount is going to severely hamper your lifts. It's generally done to achieve a short-term increase in volume, but there's just not a lot in it for the consumer.

6. Buy 2, Get 50% Off - Is not an effective promotion. It's a common vehicle used particularly in the drug channel, but it essentially amounts to a gimmick. This promotion type is banking on careless shoppers who don't scrutinize the offer and mistakenly believe they're getting half off on two items. Not only is it not as effective as a genuine 50% Off offer, it's not even as effective as a 25% Off offer.

Lastly, here's an excellent final tip for carrying out your trade promotions more effectively.

Deeper, Fewer Deals Are Almost Always Better Than Frequent, Moderate Deals

From a manufacturer perspective, you're paying fixed ad costs less frequently, and when you cut deeper, you see a massive, non-linear growth in volume that more than makes up the difference.

The next chapter will leverage these best practices to do some trade promotion planning (TPP). In a later chapter, we'll address trade promotion optimization (TPO) as the final step in the automating and improving the processes we've outlined.

Chapter 5: Planning

Two Important Things to Remember in Trade Promotion Planning

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In Chapter 4, we discussed theoretical best practices, and how to leverage the kind of promotion types that give you the most bang for your buck. Now we'll be moving on to TPP, *trade promotion planning*. These are the steps in generating an optimization model for your promotions going forward.

TPP - Prior-Year Accrual Versus Live-Accrual Approach

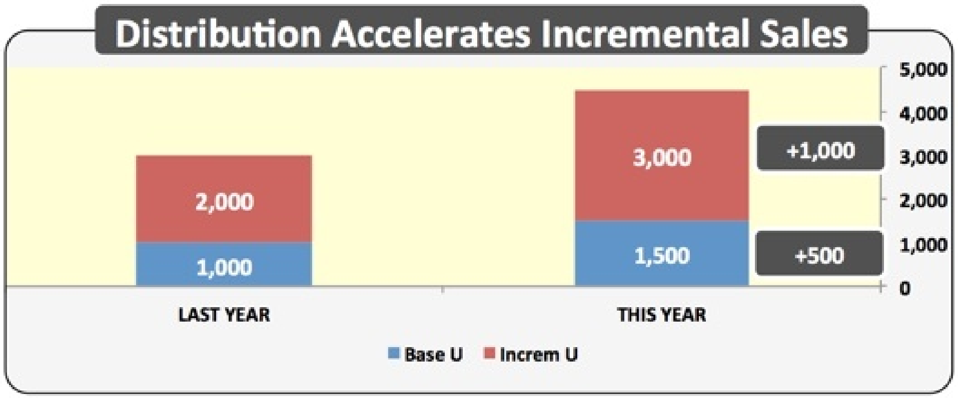
In terms of forecasting, a lot of companies use a live-accrual model. In practice, it's been difficult for us at TABS Analytics to find a compelling reason to do so. First, a live-accrual model difficult to manage. With all the moving parts involved, making forecasts based on live accruals becomes nearly impossible.

A second disadvantage to a live-accrual model is that it results in some distortionary pull-forward effects. Remember the reason we have promotions is to generate incremental retail sales. We don't care about measuring incremental shipments, as the trade is already well-versed in adjusting the numbers for overshipment.

Unlike live-accrual models, measuring according the prior-year accruals dramatically reduces year-end surprises. With a prior-year accrual model, you have a realistic budget and know exactly what you have to spend. This allows you to procure any needed funds well in advance, rather than having to scramble at the last-minute as you may have to do in a live-accrual scenario.

The Role of Incremental Distribution

Another necessity in planning is never to forget the role of incremental distribution on your lift. A lot of companies think to themselves, "Well, we generated 2,000 incremental units last year. This year, we'll go for 3,000." In this imaginary company, say they did 1,000 base units last year.



We're now in a situation where the incremental distribution lifted our baseline sales by 500 units. But the lift multiples *don't change, regardless of your baseline.* So, if you had three weeks of supply lift at a lower-level baseline, those three weeks of supply will remain the same. You need to plan your promotions accordingly. You'll get higher levels of incremental sales because you increased your baseline.

The next chapter will address *trade promotion execution* (TPE), the final step in automating and improving the trade promotion optimization processes we've outlined in the series.

Chapter 6: Execution

5 Self-Defeating Barriers to Overcome in Trade Promotion Execution

TABS Analytics

In this final piece of the trade promotion puzzle, we'll move from the planning phase to execution - trade promotion execution (TPE). One of the most critical aspects of TPE is *margin pooling.*

Margin Pooling

Typically, manufacturers want to do one of two things when they promote with a retailer: either hold their current profit, or hold their margin on an everyday basis. These are not realistic, and in truth, can even be self-defeating.

When you lower the price on a promotion, you need to understand that margins will also necessarily take a hit in the service of more overall profit.

Typically, manufacturers are very familiar with the cost of goods, much more so than retailers. The responsibility is therefore on the manufacturer to drive the collaboration and create an atmosphere of trust.

So, assuming we have a cooperative retailer, how do we go about allocating those margins?

Let's say that we have to subsidize a $4 everyday price down to $3. How do we allocate that one dollar discount, ensuring that both sides make money?

The manufacturer must subsidize the discount in direct proportion to their profit in the overall value chain.

In our example, if the manufacturer is making 75% of the profit in the value chain, then they must cover 75 cents of that one dollar discount. This may mean holding margin, or even increasing margin for the retailer. But it usually means that the retailer will be accepting a lower margin as well.

Self-Defeating Barriers - Manufacturers

As a final thought exercise in this series, let's discuss some of the self-defeating barriers that prevent manufacturers from making more money on their promotions.

First off, manufacturers often have this idea that trade spending is inherently bad, usually based on erroneous suppositions about debasing their brands. In many (in fact, *most*) cases, more spending can drive more profit that can support brands long-term.

Another problem is a "me" orientation in dealing with retailers. Those manufacturers who think to themselves, "I don't care what the retailer is making off the deal. My sole focus is on my margins, and on my profits." This is short-sighted thinking, and will only serve to ensure that retailers are markedly less enthusiastic about working with you in the future. It's in your long-term best interests to ensure that everybody's making money.

A third barrier is something we call the "TPI bias," and it's common to many manufacturers. They focus so much on the implementation side of their trade promotions that data collection and optimization go out the window. If you've been reading this far, we think you already know what an awful idea that is.

Fourth, many manufacturers have an apparent obsession with displays. They can be useful, certainly, but they're only one tool in the trade promotion toolbox. Sometimes, a simple coupon promotion can be much more profitable.

Fifth, the liberty at which you can take risks with your promotional dollar differs greatly depending on the size of your operation.

For example, if you're an HBC brand that generates at least $100M in sales, you can probably make significantly more money by spending a bit more on promotion. For food manufacturers, that brand threshold is lower at about $50M because the lifts are higher.

However, if you're a smaller brand coming in well under those annual thresholds nationally, you need to be much more cautious in how you invest your trade funds. If not, you're virtually guaranteed to lose money on your promotions.

Self-Defeating Barriers - Retailers

Up to now, we’ve been talking about manufacturers. The next few barriers apply specifically to retailers.

First, very much like manufacturers, retailers often have unrealistic and inflexible margin requirements. Again, both sides need to collaborate to help ensure a mutually equitable solution.

Similarly, some retailers have a habit of wanting to perform automatic deductions. There are smaller brands, and indeed, entire categories, where this simply doesn’t make sense. Deductions are far more practical with larger and more responsive brands.

Third, retailers tend to lean toward “everything but the kitchen sink” ads, refusing to consider advertising smaller brands because they need to make a certain number of dollars on this particular ad block. But in these cases, they’re only considering total dollars instead of incremental ad block dollars.

The manufacturer then lumps all of their brands into a single ad block to hit the desired threshold. This results in bland, untargeted ads with middling price points, and ultimately, a disappointing lift, as discussed in the recent TABS Analytics white paper.

Finally, many retailers have a “card-only” strategy, where a promotion applies exclusively to holders of the store’s membership/loyalty card. This has really depressed incremental sales at a lot of retail locations. Not everyone wants to be a member of the loyalty card club. Don’t misunderstand: it’s a great hook for those deal-sensitive buyers. But loyalty cards need to be part of a more comprehensive approach, rather than being the exclusive vehicle through which you offer any kind of discount.

Next, we'll bring everything together in a summary of best practices.

Best Practices Summarized

Bringing It All Together

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We have covered a lot of ground in these pages, bringing you full circle through a cycle of data collection, planning, and execution. This final chapter will serve as a handy summary of trade promotion best practices. If you stumble across a concept here that isn't clear, then please feel free to look at any of our blog posts here, as it's likely we have covered the concept in detail at some point.

In this book, we've framed trade promotion best practices throughout a six-part cycle:

- Correct Metrics
- Correct Measurement
- Correct Data Harmonization
- Tactics
- Planning
- Execution

Probably the single biggest key to accurate metric collection is to measure exclusively in *consumer units*. All the most useful metrics in assessing your trade promotion optimization (TPO), such as revenue, incremental factor, and spend ratio, all flow downstream from this.

Once you've got accurate metrics, it's time to compute an accurate baseline. Syndicated data often has base sales spikes that can't be explained without promotion. TABS AccuBase is a tool that takes those promotion-related fluctuations into account when computing your baseline, for a more accurate result.

Next, we need to address *data harmonization,* which is absolutely essential for accurate reporting. In fact, it likely represents the single largest barrier to accurate promotional planning and optimization.

You need a system in place that can harmonize brand sizes, currency, units of measurement, and a million other variables that can differ between retailers and geographic regions.

While having dedicated TPI software in place isn't absolutely essential, at least in the beginning, the need for a dedicated system grows as your organization grows. The larger you become and the more accurate you wish to be, the less that TPI software for harmonization becomes optional.

Once we've got accurate and harmonized metrics and measurements, it's time to put our heads down and think trade promotion tactics. The following are some good rules of thumb for conducting your promotions.

- Bonus Packs and Consumer Premium Offers very rarely work.
- Loyalty programs can be a valuable weapon in your arsenal, as long as you understand that "loyalty members" tend to be the most fickle, price-conscious, and decidedly disloyal of all your buyers.
- The three most effective promotion types are, in order, *Percentage Off* (provided you go big), *Buy-One-Get-One-Free*, and *Net Price After FSI*.
- Finally, keep in mind that fewer, deeper deals nearly always reap better results than do frequent, moderate deals.

Of course, all such rules have their exceptions, so it's always critical to test your promotions and make adjustments based on the results.

After running some promotions, it'll then be time to do a bit of planning, and generate an optimization model to help ensure efficiency. Here are two tips for better planning:

1. Use a prior year accrual model instead of live accrual. Prior year accrual gives you a realistic budget, is less messy, and avoids end-of-year surprises.

2. Don't forget the role of incremental distribution on your lift. Lifts don't actually change, regardless of baseline. Plan your promotions accordingly.

As a final step, let's address the actual execution of promotions, including our ongoing relationships with retailers. The following are some good rules of thumb:

- The manufacturer must subsidize the retailer discount in direct proportion to their profit in the overall value chain. The promotion needs to be worthwhile for both parties.
- Trade spending is not inherently bad, and can in fact drive profit in a lot of instances.
- Displays are a useful tool, but they're not a panacea. Often, a simple coupon-based promotion can be more effective.
- Finally, the liberty at which you can take risks with your promotional dollar differs greatly depending on the size of your operation.

Naturally, the above rules target manufacturers specifically. Here are a few simple rules aimed at retailers:

- Again, adjust your margin requirements. *Both* sides have to be flexible.
- Automatic deductions, while desirable, might not make sense if the promotion isn't for a large, responsive brand.
- It's valuable to consider incremental ad block dollars, not just total dollars. So, consider promoting smaller brands separately for a targeted response instead of lumping all brands into one ad block.
- Loyalty cards need to be part of an overall strategic approach, not the entire strategy in and of itself. Don't make all promotions contingent on the shopper having a card.

We hope you've found this trade promotion best practices content valuable. TABS Analytics offers solutions for helping with critical aspects of your trade promotion process: from collecting, measuring, and harmonizing your metrics, to spotting trends in the actual execution of your promotions. We bring all our expertise together in the TABS Total Insights™ platform, a powerful, one-stop data analytics suite.

Please feel free to download the TPO white paper at the end of this e-book that outlines a 3-step process to trade promotion optimization success in more detail.


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