CASE STUDY

DITCHING DEEP DISCOUNTING

The story of one snack manufacturer who used post-event analytics to cut trade spend without alienating their retail partner.

Talk of cutting trade spend has long been taboo in CPG circles. Retailers aren't likely to entertain the thought, and manufacturers are not inclined to upset their valued volume drivers. And so, manufacturers spend ever-increasing amounts of money to drive volume and maintain a favorable position with their retailer partner, but in doing so they undermine their own profitability.

Of course, we're not suggesting that reducing spend should be undertaken lightly. Loss of distribution or shrinking shelf space are serious potential consequences of ill-considered trade spend reductions. The crux of this tug-of-war tale is that neither manu-

facturers nor retailers have historically been in a good position to understand what promotions are actually driving revenue and profit. And this lack of reliable data has created an adversarial scenario.

But what if we could call off the tug-of-war and get manufacturers and retailers pulling in the same direction?

THE ANALYTICAL APPROACH

One snack manufacturer decided it was time to do just that. Using trade promotion optimization, they were able to maintain strong relationships with retail partners while reducing unsuccessful trade spend.

To do so, this popular snack manufacturer, a T-Pro Optimum TPO customer, turned to post-event analysis capabilities to support an analytical approach to revenue growth and retail partnerships.

MANUFACTURER GOAL

Make trade spending a revenue generator instead of a profit drain.

Through post-event analysis, the company discovered three concerning trends:

1. Their trade spending was approaching 30 percent at one specific retailer.
2. Despite increased spending, they were not gaining share.
3. Their per-unit price point was more than $0.10 less than competitive brands, but they weren't capturing profitable promotional lift in line with the event.

Post-promotion analysis of the company's events determined that a 2-for-$4.00 promotion at this retailer had a negative ROI and was not driving enough incremental volume to justify the profit sacrifice. Using their TPO's constraint-based optimization capabilities, the company identified that they could drive additional profitability of over $0.20/unit, increase incremental volume by 10 percent, and cut spending to reach their corporate objective if they increased price.

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Taken together these insights revealed a harsh truth: trade investment was not driving the volume and revenue required to meet their objectives. With this in mind, the revenue growth management team prioritized a two percent reduction in spending over the fiscal quarter.

MUTUAL BENEFIT

Relying on this new data, this manufacturer is cutting trade spend, taking a traditionally taboo step. Their story shows that when manufacturers can demonstrate mutually beneficial promotional course correction, retailers will listen. The win-win scenario finally moves both parties away from thinking about how much is being spent to how much can be gained.

And that's what this manufacturer was able to demonstrate with the data generated with T-Pro Optimum; they brought forward a plan to drive additional profit through more effective promotions. Normally, retailers would be hesitant to accept a price increase (let alone a spending cut), but the data-driven evidence in favor of mutual profitability made it an easy decision.

Not only did this profit-driving tactic lead to better promotional results, but it also opened the door for additional collaboration between the manufacturer and retailer. The pivot to building a revenue growth management strategy inside this organization worked because the execution of the strategy has been supported externally by the company's retail partners.

NO MORE TUG-OF-WAR

By using accurate, predictive and analytically-driven planning, this snack manufacturer can present one version of the truth - eliminating the historical tug-of-war between manufacturers and retailers.

As CPGs pivot their trade strategy from random recurring spend to insight-based selling, problematic trends can arise. With timely post-event analytics, you can monitor base volume for anomalies and market shifts. Additionally, having organizational KPIs, plan vs. actual metrics and promotional ROI on-hand allows for quick understanding of promotional effectiveness.

Negotiations can shift from arguing over how much is being spent to collaborating on a plan for driving revenue together.