

# **CONSUMER PROMOTIONS: ENHANCING BRAND EQUITY AND PROFITABLE GROWTH**

IMPROVING EFFECTIVENESS AND EFFICIENCY  
THROUGH A STREAMLINED, CLOSED-LOOP PROCESS

White Paper  
SAP Trade Promotion Management

THE BEST-RUN BUSINESSES RUN SAP™





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# EXECUTIVE SUMMARY

## TOWARD INTEGRATED TPM PROCESSES – AND MEASURABLY IMPROVED PERFORMANCE

Trade promotions can simply make the difference – in those moments of truth when customers select products from store shelves. Yet few areas in the world of consumer products present more opportunities for achieving better returns from the resources spent. According to industry statistics, the consumer packaged goods (CPG) industry, for example, spends upwards of US\$105 billion on the promotions that companies run through retail outlets each year. Yet most of these promotions are unprofitable.

Despite such facts, CPG and other consumer products manufacturers – such as PC makers – understand that properly managed trade promotions represent a critical means for building brand awareness, encouraging customers to switch to their products, improving demand planning, and building better relationships with retailers and consumers. The challenge is one of making trade promotions work more effectively – increasing brand presence and profitable growth – while more efficiently using company resources.

The process know-how and enabling business applications are now available to help companies like yours turn the corner on trade promotion management (TPM). Potential outcomes include increased visibility of the funds available to support promotions, enhanced deduction handling and claims management, deeper insights into promotion effectiveness, and improved coordination across business units and retail partners to ensure alignment.

This paper explores some of the challenges facing consumer products manufacturers with regard to TPM – and it articulates an end-to-end process that leverages the integration of critical front- and back-office applications to drive out costs while improving profitability and brand equity. Ultimately, you'll gain a better understanding of which promotions work and how to generate measurable business benefits. This, in turn, will drive down the number of promotions you run – while making those you keep far more effective.

# THE ELUSIVE RETURN FROM TRADE PROMOTIONS

## THE NEED FOR BETTER OPERATIONAL AND STRATEGIC MANAGEMENT

If you're a brand manager or sales representative in a consumer products company, the importance of trade promotions management (TPM) is quite clear. After all, paying money to retailers to prominently display your goods and advertise your latest incentives is often the way business is done. Buy one get one free. Cash back with proof of purchase. Enter to win a free trip to the Bahamas. These are the proven, time-honored methods of motivating consumers to switch to your products, defending shelf space, and staving off the competition.

This, at least, is the prevailing wisdom. A look at some facts, however, may give you pause. Most CPG firms believe that the TPM dollars they spend are ineffective or at the very least inefficient. And according to industry statistics, consumer products manufacturers write off deductions equal to about 8.5% of their revenue. In general, a proliferation of brands and products – driven by enhanced consumer sophistication and market fragmentation – contributes to conflicting and underperforming promotions.

### The Rising Power of the Retailer

From the manufacturer's perspective, the relative power of the retailer is also a growing problem. Consolidation among retailers is substantially increasing their leverage. Already retailers have transferred cost and risk to manufacturers by requiring them to take primary responsibility for monitoring demand and replenishing just-in-time inventory. Market conditions and industry trends

are now motivating retailers to manage promotional activities more proactively, even though manufacturers provide the funding.

Recently, innovations such as demand-driven supply networks – in which manufacturers become closer to demand signals – are prompting retailers and manufacturers to collaborate in a closed-loop process to manage demand. But in order to be effective partners in

Manufacturers, meanwhile, do little to aid their own cause. For example, according to AMR Research Inc.,<sup>1</sup> 46% of trade promotions are not measured for trade effectiveness (in a study of North American companies). This is an astounding statistic given the amount of money spent each year on trade promotions. In fact, according to AMR, total TPM spending weighs in at somewhere between 10% to 30% of the yearly revenues for the entire CPG

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collaboration, retailers are stepping up to analyze promotional mix and timing on their own. Armed with deep customer knowledge and new analytical tools, these retailers increasingly call the shots – especially where manufacturers fail to step up with their own insights. When the balance of power shifts to retailers, they often reap the lion's share of benefits of the TPM funds provided by the manufacturers.

industry.<sup>2</sup> But only a fraction of these expenses is profitable.

While it would be foolish to suggest that manufacturers should simply exit the trade promotion game altogether, a more rational approach to the business practice is clearly needed. Competitive demands – and prevailing wisdom – foster a “promote at all costs” mentality in most consumer goods industries.

1. Cecere, Lora, Sirkisoon, Fenella, “What Is an Effective Trade Promotion?”, AMR Research, November 9, 2007.

2. Scott, Kevin, Romanow, Kara, Johnson, Rod, “Trade Promotion Management: What Are You Waiting For?”, AMR Research, July 7, 2003.

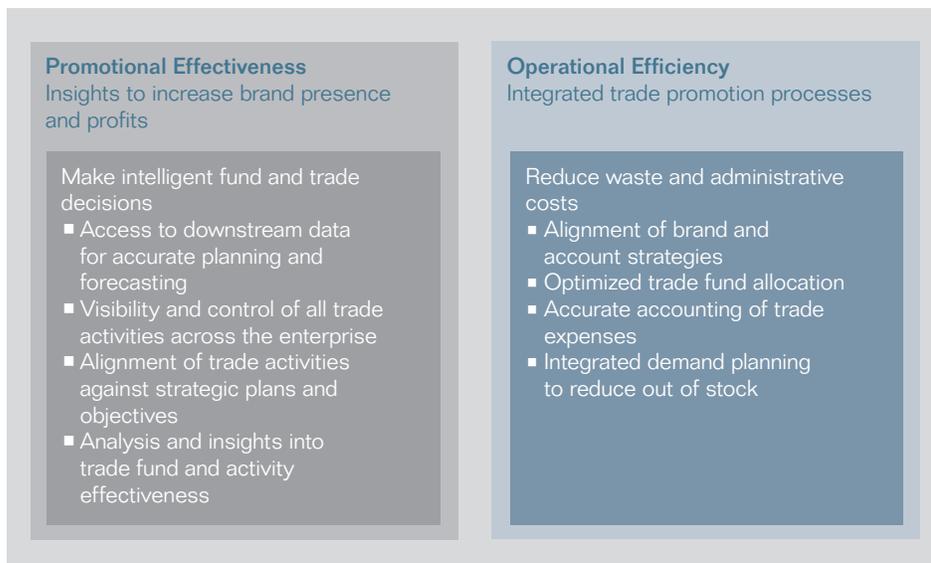


Figure 1: End-to-End Trade Promotion Process

But a more well-considered approach to TPM can help you save money on otherwise fruitless promotions – and assist you in better identifying the kinds of promotions that actually generate profits and build brand equity.

### The Case for Sustaining Trade Promotions

The overarching problem with TPM is not its apparent futility. There are, in fact, solid business reasons for engaging in the practice. If your competition regularly takes action to lure your loyal customers away with attractive offers, you're obliged to find an appropriate response. If you have a new product or excess inventory, promotions can help catalyze demand. In short, you must defend your brand, keep existing customers, and attract new ones.

The problem is that TPM is typically not well managed – from both a strategic and an operational perspective. This can work against the brand equity and profitable growth that you're striving to achieve.

Consumers today can reasonably expect promotions on core replenishables anytime they shop. This leads to “pantry loading” based on price and ultimately erodes brand loyalty. Manufacturers respond by ratcheting up their promotion efforts. This in turn leads to a dizzying array of promotions under management, brand cannibalization, and a highly complex transaction environment. Add to this the fact that retailers have come to rely on the revenue paid by manufacturers to run these promotions – even though the money is paid with little evidence of measurable return.

So why stay in the TPM game at all? If most of your promotion efforts will essentially fall flat, why should you even bother expending the resources in the first place? The answer, of course, has a lot to do with the promotions that do succeed. Again, the problem is not so much trade promotions themselves, but how they are planned, executed, and evaluated. How do you decide whether or not any potential promotion will be effective? How do you determine the resources to be dedicated? How do you efficiently validate retailer claims, monitor performance, and measure success?

In the CPG industry, best-in-class TPM practitioners are asking these questions and finding answers. They're discovering ways to improve promotional effectiveness and operational efficiency – based on innovations in the end-to-end promotion process supported by the intelligent application of information technology (see Figure 1).

# AN INTEGRATED, END-TO-END APPROACH TO TPM

## CONTINUAL IMPROVEMENTS, A CLOSED-LOOP PROCESS

An effective process for TPM is one that incorporates the elements of planning, execution, and evaluation in an ongoing cycle to continually improve promotion effectiveness (see Figure 2). Increased efficiencies can be gained through automation and the integration of key aspects of the process such as planning, funds allocation, forecasting, claims validation, and more.

### Planning: Top-Down and Bottom-Up

During the planning stage, brand managers need to set targets within the context of the overall brand and sales strategy for the period under consideration – and define field account plans – in a process blending top-down and bottom-up approaches (see Figure 3).

Top-down planning typically addresses a year’s worth of promotions – but without information about specific promotion activity. In this approach, volume expectations and budget decisions are made for each account and brand as part of a comprehensive program.

On the other hand, to take advantage of opportunities as they arise, CPG companies also need the flexibility for bottom-up planning. In these cases, account teams start with agreements with retailers – as well as defined sales volume objectives, spending goals, and the types of trade promotions supporting a brand strategy. They then use these inputs to roll up an overarching strategy covering trade promotions (for example, at the national level).

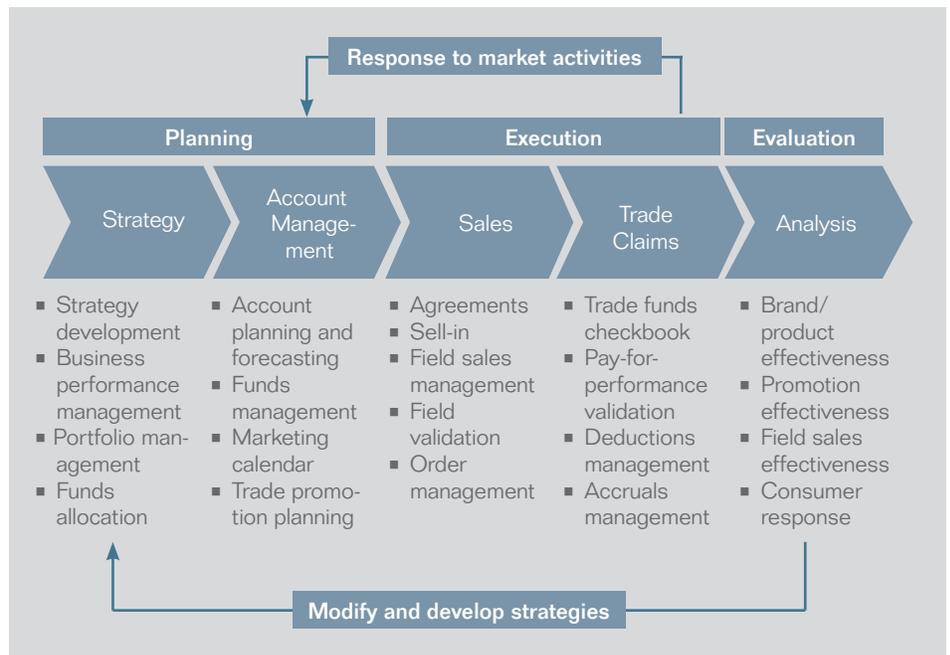


Figure 2: An Integrated, End-to-End Approach to TPM

The top-down and bottom-up processes typically meet in the middle, with the concluding negotiation taking place to finalize the planning-cycle objectives. In any event, in today’s marketplaces, companies typically must contend with growing complexity as they plan for more and more promotions across an increasing array of product categories and sales outlets.

### Addressing Complexity and Enabling Collaborative Planning Processes

To help manage this complexity, CPG manufacturers seek to unify many of the activities associated with TPM planning. For example, centrally accessible marketing calendars can summarize all promotion plans for a given time period. Templates can be used to speed the

generation of new promotions, and contracts can be explicitly linked to each promotion displayed in the calendar. Published promotion guidelines, furthermore, can help turn an individual’s knowledge into organizational knowledge – and better align TPM activities with the brand-building objectives of the corporation.

To ensure more profitable trade promotions, manufacturers also need more powerful forecasting capabilities. Improved forecasting will help planners more accurately calculate the impact of pricing on different trade activities and better determine when to use certain price points. Such capabilities can incorporate analytics gathered from previous promotions, constraints

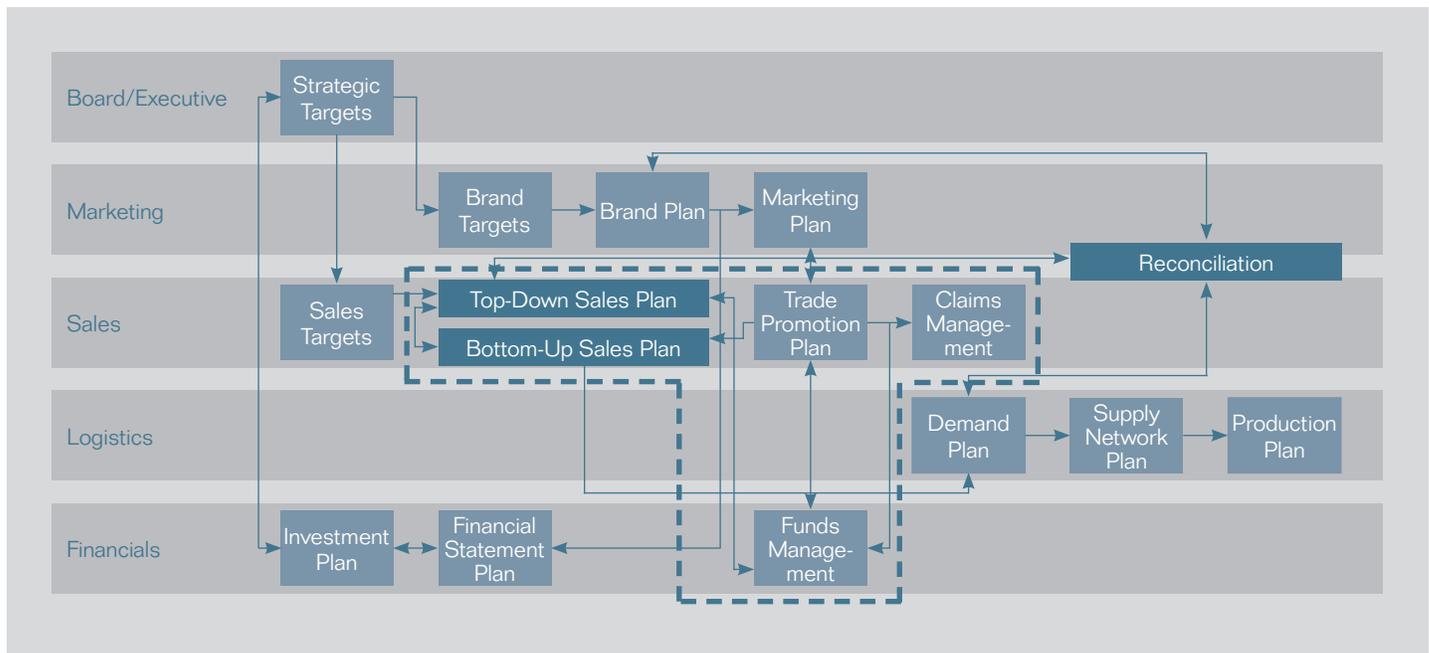


Figure 3: Top-Down and Bottom-Up Planning

covering product supply, and market data to help evaluate price elasticity of demand. Based on this information, planners will have a better idea about which kinds of promotions are likely to be beneficial in the future.

Another important requirement for the planning stage is improved collaboration so that activities can be coordinated across divisions. The marketing group, for example, must work closely with salespeople to develop a TPM plan that reflects realities on the ground. And before a plan is put into effect, supply planners need to ensure product availability to thwart stock-outs. All of this is achievable with an end-to-end TPM process that supports timely access to relevant information.

#### A Focus on Trade Funds Management

One of the more critical aspects of the planning stage – and one which has consistently added complexity to TPM processes – is trade funds management. Category managers typically intend to use trade funds for specific promotional activities. But when using spreadsheets and other manual tools, these managers have little visibility into retailers’ planned promotions and the funds available to support them. This approach makes it extremely difficult to track TPM spending and goes a long way toward explaining why the consumer goods industries spend billions of dollars each year on ineffective, inefficient promotions.

In an integrated environment, companies are better able to link available

funds to planned promotions, thus optimizing the use of those funds while building in greater accountability for the overall budget. To further improve visibility into promotional spending, companies also seek ways to automate the allocation of accruals to assigned funds. Centralized financial tracking and reporting, finally, will help manufacturers track planned versus actual spending and provide the overview required to understand TPM spending across the entire portfolio of running promotions.

#### Execution: Ensuring Performance Through the “Last Mile”

If problems during planning typically set the stage for unprofitable promotions, missteps during the execution phase only exacerbate the difficulties.

In particular, just as the performance in any telecommunications network depends on the connection quality in the “last mile,” so the effectiveness of TPM depends on the soundness of final execution at the retail level. Here again, an integrated approach to TPM that facilitates collaboration and the sharing of massive volumes of real-time data helps increase your success rate significantly.

Field sales management functionality, for example, can help clearly relate the objectives for each planned promotion to the salespeople who regularly negotiate and interact with retailers. With a clear understanding of the strategy behind each promotion and the likelihood for its success, salespeople can negotiate with retailers from a position of strength.

Once a promotion is underway, activity management and performance validation tools can help you monitor events and validate whether activities at the retailer site are properly executed. Are your products prominently displayed in the proper aisle per agreement? Are the offers being honored by the retailer? Field representatives charged with monitoring these items can track progress throughout the promotion – while building a base of data from which to evaluate outcomes.

#### A Focus on Trade Claims Management

Without the ability to accurately validate all claims and deductions made against promotions, you run the risk of losing control over promotion profitability. But due to the complexity of the claims process – which involves invoices, rebates, deductions, and much more – many

manufacturers are at a loss. This is why companies are looking for integrated claims management functionality that can introduce greater accountability into the TPM process.

An enhanced approach to trade claims management starts with a centralized repository for all claims and a forms-based approach to validation. This should include deduction management, chargeback, and write-off functionality. Because trade claims management combines partner and customer relations with financial transactions, integration between the front and back office is critical. When achieved, this integration can help curtail your losses, reduce your overall TPM spending, and contribute to a better understanding of which promotions actually work.

#### Evaluation and Analysis

Ongoing analysis is the key to trade promotion success. You can implement sophisticated systems to improve planning and execution. But you can achieve the enhanced brand value and improved profitability you seek only if these two phases are informed by a thorough analysis of past performance.

In past years, the focus of TPM measurements has been on efficiency. Relevant measures in this regard include improvements in funds efficiency, reductions in spending, lower days sales outstanding, and sales lift.

While efficiency remains important, the focus is shifting to include TPM effectiveness. Here, the relevant measures are more numerous and the

volume of historical data is vast. The payoff, however, can be substantially greater. Benefits can include greater customer insights, improved predictions covering the outcome of a promotion, first-mover advantage with innovative promotions, and the ability to shape the demand curve for specific categories. In short, companies can attain true competitive advantages across multiple fronts, dwarfing the gains achieved through efficiency improvements alone.

The specific metrics you use to improve effectiveness will vary according to the promotions you run. Broadly speaking, you should be able to:

- Track results to the geography or store level
- Conduct consumer and category analyses
- Integrate third-party data to conduct deeper segmentation analyses
- Calculate promotion ROI at the customer, brand, and product levels (with accurate attribution of costs such as deductions)
- Identify effective promotions for reuse and cataloging within a library of promotions

As companies iterate through many cycles of promotion planning and execution, disciplined analysis will enable continual improvements across the array of business processes. In particular, companies will be able to determine not just the expected sales lift, but the true costs of that growth – and the impact on trading partners, consumer experience, brand value, and the bottom line.

# THE PAYOFF: PROMOTIONAL EFFECTIVENESS AND OPERATIONAL EFFICIENCY

## LEVERAGING INTEGRATION AND BENEFITING ALL STAKEHOLDERS

### The Value of Integration: Financial Processes, Collaboration, a Shift from Push to Pull

When integrated business applications enable TPM processes, companies can increase the efficiency of the activities they execute. Integration with back-end financial systems helps you optimize the allocation of trade funds and more accurately account for expenses. This leads to a better overall understanding of TPM spending and better accountability to comply with the Sarbanes-Oxley Act and other statutory requirements.

While ensuring proper financial settlement is essential, it's important not to stop there. In particular, integration also facilitates the coordination of supply chain activities. Supply planners, for example, can be brought into the process from the earliest stages to prepare them to meet the demand generated by promotion plans.

In fact, many companies are working to get as near as possible to demand signals and become sufficiently agile to react quickly (for example, through deployment of demand-driven supply networks). That is, instead of pushing products to shelves and then promoting, companies are generating demand through promotion, and then responding to what's being pulled from shelves. The shift is from push to pull – leveraging collaboration among sales, marketing, supply chain, finance, and external partners – and thus toward dependence on robust systems to enable new processes.

### Toward Win-Win-Win

By gaining insights into the most effective promotions, you can target

your spending, reduce the number of promotions, and focus on the ones that are best aligned with brand strategy and yield a favorable ROI. For those promotions you opt to keep, you'll be able to concentrate your resources to ensure continual efficiency improvements.

You'll enhance core trade promotion activities – as well as financial, supply chain, and other processes. And you'll achieve a win-win-win – for your company, retailers, and end consumers. On top of benefits to your company, your distribution network will profit from more effective promotions, and consumers will receive greater value from products they purchase from a more efficient supply network.

### SAP® Trade Promotion Management

With more than 35 years' experience helping manufacturers in consumer products industries run their businesses more effectively, SAP brings a vast knowledge of best practices to the challenges of TPM. The SAP® Trade Promotion Management application reflects this experience, supporting a simple, flexible, and comprehensive approach to TPM – enabling you to plan, control, execute, validate, and evaluate trade promotions.

SAP Trade Promotion Management supports your promotional programs in the following specific ways, among many others.

**Trade activity planning:** SAP Trade Promotion Management helps manufacturers ensure that all activities

associated with promotions are being properly executed at the retail level.

**Trade funds management:** SAP Trade Promotion Management provides full visibility and control of trade spends. The application supports accurate planning and real-time activity monitoring, accruals management, multidimensional funds planning, and compliance with Sarbanes-Oxley and the Financial Accounting Standards Board.

**Trade claims management:** SAP Trade Promotion Management supports claims management processes across the financial value chain, forms-based validation to prevent unnecessary losses, full deduction management, and chargeback and write-off functionality.

As we have seen, integration lies at the heart of successful TPM. In line with this, SAP Trade Promotion Management integrates seamlessly with the SAP Customer Relationship Management application for improved coordination with your retail partners, and with the SAP ERP application for integration with accounting processes. Together with the SAP Supply Chain Management application, SAP Trade Promotion Management can enhance demand and supply planning and more. This level of integration provides a sound foundation for enterprise processes, continued innovation, and ongoing business success.

To learn more about how SAP Trade Promotion Management can help you improve the efficiency and effectiveness of your promotional activities, contact your SAP representative today or visit us online at [www.sap.com/crm](http://www.sap.com/crm).



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