

# The Integrated Analytics Model for Trade Promotion Management

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# The Integrated Analytics Model for Trade Promotion Management

## Redesigning the TPM Process

**The best technology in the world is useless without the right process, metrics, training, and top management support. A key part of the implementation of any Demantra trade promotion management solution from Oracle is a comprehensive plan to address these nontechnology ingredients crucial to the success of TPM initiatives. Oracle, by leveraging its experience with leading consumer goods manufacturers, can offer guidance. We can assist customers throughout the implementation effort with business process redesign and change management support.**

## EXECUTIVE SUMMARY

The trade promotion industry is currently facing many challenges. The long-running paradigm of trade promotion management (TPM) has been severely tested and found to be unacceptable for a number of reasons.

The historic value proposition of trade promotion management has been largely confined to transactional efficiency—reducing the effort to maintain the funding and settlement process. While the need for information has long been a prevalent mandate for TPM systems, meeting this need has typically meant detailed reports, and analytical tools that show the flow of the audit and payment of submitted claims and deductions. But now, trade spending has risen to nearly 20 percent of gross revenues, and tough governmental accounting standards require companies to plug the holes in what has traditionally been an extremely porous process. TPM has taken on an entirely new perspective as the primary component of both performance analysis and precise, trustworthy sales and market forecasting.

This white paper discusses the problems with current TPM processes and offers solutions that can be achieved by using an integrated analytics model. These solutions require a robust analytical foundation and integration with transactional functionality. They will help manufacturers design more profitable promotions and execute these promotions more intelligently with retail trading partners.

## INTRODUCTION

The “market” is what manufacturers refer to as trade marketing—dealing with the channels of distribution to increase revenues, profitability, and market share. We’ve all heard about the pressures on accountability and financial reporting imposed by the Financial Accounting Standards Board (FASB) and Sarbanes-Oxley Act (in the U.S.) as well as other regulatory actions in Europe, Asia, and South America. But there is an even more rigorous mandate to control, manage, and evaluate the performance of trade funds, which are generally the second highest line item in the corporate budget after cost of goods.

Spending across all industries is reaching nearly 15 percent of gross revenues,<sup>1</sup> with consumer packaged goods (CPG) manufacturers topping 20 percent. The relative

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<sup>1</sup> HPM Survey on Trade Channel Promotion, 2003, [www.handpromotion.com](http://www.handpromotion.com).

elasticity of trade funds is virtually at its limit. There are almost no additional sources of cash to feed the huge mandates of the growing trade channels, especially the “category killers” and mega-retailers like Wal-Mart, Home Depot, and the powerful grocery and drug chains. This creates two dilemmas for manufacturers—and a huge one for the trade channels.

First, manufacturers need to control, if not essentially halt, spending—potentially the key to survival. Second, the need to analyze that spending has transcended from simple return on investment (ROI) calculations, to sophisticated promotion analytics and optimization that drive the very effectiveness of promotional spending in the future. For the trade channel, specifically the retailer, the big issue is collaboration—sharing critical supply chain intelligence and more effectively and efficiently managing products and categories. The long-standing wall between trade channel promotion spending and the manufacturer’s open participation in real collaboration is crumbling—and the retailers know it.

A popular theory is that TPM is suddenly a critical information technology issue as a result of the strong regulatory environment that has evolved in the wake of the Enron and WorldCom scandals. The truth is trade promotion has evolved into the marketing tool it was always designed to be—the precise, trustworthy, collaborative, and analytical-based planning of promotion and forecasting.

### **The Verdict on Collaboration**

The initiative sponsored by many members on both sides of the trade channel—collaborative planning, forecasting and replenishment (CPFR)—has been a powerful catalyst for better supply chain management. Those in charge of the trade channels have agreed to most areas of collaboration, except when it comes to trade funds and promotion planning. This is not usually up for discussion. To date, there has been no outward verdict that these exclusions will change—but they should.

The channels, specifically large retailers, have long been viewed as “the bad guys” by manufacturers because of their heavy-handed tactics in demanding trade funds and in their absolute refusal, in many industries, to provide proof of cost and performance. Historically, more collaboration and clearly more cooperation have occurred between manufacturers and resellers in general in the sharing of data and fund planning. For most industries, this is still an area where cooperative diligence is followed, including the channel’s reasonable attempts to document performance, participate in promotion planning and approvals, and even to allow more involvement in monitoring retail execution. But for fast-moving consumer packaged goods, the practice of trade funds collaboration is non-existent.

The best chance for changing this trend lies in the supply chain management, vendor managed inventory, and demand planning cultures. Specifically, believable integrated analytics and the domain knowledge on both sides required to render such analyses actionable will move the practice of collaboration deeper into trade promotion.

If you consider that no one knows the impending brick wall of increasing trade funding more than the trade channel itself, you must also understand that achieving more with the funding on hand is the only real way to improve revenue, profitability, and share. As with every other market force, this fact will affect to what extent the trade channel will collaborate and share sensitive, trade promotion performance intelligence. And it will probably be significant—especially among those channel-manufacturer relationships where the manufacturer plays the role of category leader, or at least commands a significantly large slice of the market.

### **The Technology Factor**

As the technology of trade promotion analysis becomes more developed, we will see collaborative analytics become not only a new trend, but also a staple in the way manufacturer and trade channel partners do business. For most companies, especially enterprise resource planning (ERP) vendors, analytics have been held off the production line. This is mainly because scientific, analytical tools and applications require far more domain skills and industry intelligence than virtually any other component module of a TPM suite.

While most CPG companies integrate product movement data from ACNielsen or Information Resources, Inc. (IRI) as the primary fuel for trade promotion analytics, others try to use internal historical information to add a level of intelligence. But the problem is that most companies, while boasting huge stockpiles of historical trade promotions data, often learn it is useless as a major component of trade promotion analysis. The paradox is that the CPG industry has the most voluminous wealth of data on product movement; but their actual historical data is based on trade deductions<sup>2</sup> and the thin layer of actual promotional performance data that comes with them. This type of data can be made accessible today in virtually every TPM suite, but it does not provide the kind of trustworthy analytics and performance measurements that the trade channel needs to make a case for believability and collaboration.

Oracle's Demantra trade promotion management solutions use powerful analytic tools that combine historical data with sophisticated statistical modeling to provide a level of precision and trust that results in a confident projection of forecasts and promotion planning. Most enterprise TPM vendors have begun their functional component modules with more transaction-oriented deduction management or settlement applications, and continue to build the suites with promotion planning, funds management, and finally promotion analytics. While every vendor embraces

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<sup>2</sup> Trade deductions, usually prominent in consumer packaged goods, are actual reductions of payment for invoices from the manufacturer. The deductions typically refer to a reason, with better than 80 percent of all such short-paid invoices relating to trade promotion. Manufacturers must track down, or research, each deduction to determine what it was for. Typically, the answers are highly nebulous “advertising” or “display” and rarely link to specific ads in specific media, or display types, products, or even branch store locations. Therefore, the data derived is often useless for calculating precise ROI analyses.

**Promotion planning should never be a segregated function. Collaboration must be carried out at each key juncture of the promotion process. This collaboration should include a process whereby the two parties contribute independent objectives, philosophical direction, operational capabilities, and mutually acceptable key results areas.**

analytics as the key, only Demantra solutions include this critical component as their first component module. This is a smart course of action because it represents a commitment to the one function of TPM that truly integrates with so many other ERP, supply chain, demand planning, logistics, and sales force automation systems.

As technology advances, more companies will begin to improve their analytical capabilities through the implementation of more powerful systems. But a key to success is how companies will commit to education of key users such as sales, finance, and marketing. This is especially true of field sales representatives, who have such a critical role in the quality of the analytics, because they are so often responsible for much of the raw data that goes into the system.

### **MOVING BEYOND “PLANNING 101”**

Planning 101 suggests a routine process that involves budgeting and allocating funding, evaluating historical performance, and diligently collaborating between supplier and reseller. Traditionally, the task of planning trade promotion events, activities, and campaigns is done at a corporate level. In the consumer packaged goods industry, a significantly more advanced and mature process for promotion planning exists—one that is truly at an account level. But again, the level of quality is often negatively affected by the lack of technology and training. In consumer durables, especially more traditional industries like apparel, footwear, auto aftermarket, hardware, appliances, and housewares, the responsibilities for promotion planning are left to the retail channel customer.

Promotion planning should never be a segregated function. The trend is clear: collaboration—truly realistic and effective collaboration—must be carried out at each key juncture of the promotion process. There might be a “base” program with its own set of terms and conditions—for example, a co-op advertising program, fixed market development funds, channel rebate, and so on. But the channel and the manufacturer both must understand and accept the desired results they seek, such as increased profit, revenues, market share, moving old or new product, and so on. This collaboration should include a process whereby the two parties contribute independent objectives, philosophical direction, operational capabilities, and mutually acceptable key results areas (KRAs).<sup>3</sup> These KRAs describe what is expected to occur, and roll into specific goals that can be clearly identified and against which particular measurement indices are applied.

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<sup>3</sup> “Key Result Areas” or “KRAs” excerpted from “Northbound Train,” by Karl Albrecht, 1994.



Copyright: Karl Albrecht, from *Northbound Train*, 1993

**Figure 1: This business model uses key result areas (KRAs) that are closely aligned with business goals to ensure trade promotions are successful.**

In this business model, both the customer (channel partner) and the manufacturer share the vision of working together to forge a set of business targets and goals that are aligned with each partner’s particular capabilities and mission. For promotion management, the failure to align goals results in failure to achieve goals—the number one reason that trade promotion fails.

### **From Meaningless to Meaningful**

Formalized, collaborative promotion planning enables a far more meaningful purpose when spending growing trade promotion funds. Because most companies fail to align goals and objectives, the resulting trade promotions often yield less than adequate results. Even when many channel partners and manufacturers believe that their trade promotions are “generally successful,” in fact, they are not.

Most companies lack the intelligence to adequately assess the performance of their promotions. Trade promotion analytics—the kind that would truly provide advanced notice of success or failure—are generally unavailable, or at best, miss the mark. As a result, many chief executives continue to believe that beyond looking at the final revenue number, any other trade promotion analysis is meaningless. In addition, many corporate marketing and sales executives point to factors such as environmental conditions, philosophical and emotional responses to the market by the consumer, and even the political situation as being beyond measure and therefore unable to be used in promotion planning analyses.

It is true that basing forecasts on simple achievement of ROI (the gross return of revenue from the total spending of trade promotion money) is dangerous—missing huge elements of intelligence that often alter the equation. But advanced technology, especially that which originates in the modern disciplines of demand planning and supply chain logistics management, has given trade promotion analytics the opportunity to be realistic and meaningful.

**To manage the settlement process, many global consumer durables companies either have constructed their own internal legacy TPM systems or have outsourced their TPM system administration. This gives them access to more detailed promotional activity information than that found in the consumer packaged goods industry.**

### **The Expanded Planning Role for TPM**

In the consumer packaged goods industry, promotion analytics is fairly common. Companies such as ACNielsen and IRI have long provided analytical tools that combine data and software to produce strong scenario planning and advanced intelligence on trade promotion results. These systems and their corresponding market data licenses are very expensive, however, and do not provide the percentage of coverage that many companies require or believe is adequate for precise and trustworthy measurement and analysis.

In other consumer durables industries, the situation is far worse because neither ACNielsen nor IRI cover product movement from retailers outside the grocery and drug channels.<sup>4</sup> The paradox is that these companies settle their trade promotion through auditing and paying advertising claims, supported by hard documentation such as tear sheets, radio and TV scripts, invoices, photos, and certificates of performance—all submitted by the channel itself. To manage the settlement process, many global consumer durables companies either have constructed their own internal legacy TPM systems or have outsourced their TPM system administration. This gives them access to more detailed promotional activity information than that found in the consumer packaged goods industry. The absence of product movement statistics is problematic; however, more channel resellers and distributors are beginning to share point-of-sale data with their suppliers. When combined with detailed promotional activity data, the resulting ability to conduct powerful analyses and to configure more realistic “what-if” scenarios will greatly expand the role of planning in the consumer durable, financial services, and original equipment manufacturer (OEM) industries.

These industries are replacing annual co-op advertising programs and fixed terms and conditions with plan-based promotional programs that imitate the promotional commitment models of the CPG industry. The expansion of supply chain management system technology, along with a greater availability of outsourced TPM service providers, are change agents in the expansion of planning as a mandate for both indirect and direct field sales representatives. Also, the channels themselves add far more discipline in their planning regimens. This forces their key suppliers and manufacturers to adopt equally stringent planning processes. All these factors make the practice of promotion planning a global business requirement—

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<sup>4</sup> Some major mass merchandiser chains such as Target, K-Mart, and others are included in specific markets but at a premium price.

one that will often drive the decision to increase executive focus and information technology spending.

### **Deciphering Versions of the Truth**

Currently, channel resellers and distributors, especially the largest of them, control the promotion process. They require the manufacturer to accept and fund their promotions and rarely take “no” to mean anything other than a loss of product revenue for the period. They maintain the upper hand in the intelligence race by predicting and responding to consumer demand better than the manufacturer can. Over the years, this has created an environment in which any information presented by a manufacturer will carry little weight with buyer or merchandising executives. This is the single most noted reason why collaboration between the channel partner and the manufacturer is rare—if it occurs at all.

Now that promotional analytics are being put to the test and actual results are being attained, another problem exists for the manufacturer—deciphering the truth. Many manufacturers possess analytical tools that are very capable of detecting the “truth” at the skin level, but are unable to find the real causal actions that occur. The trade channel partners know this and, therefore, often do not respect the information provided. These retailers, even with a close finger on the consumer pulse, also often fail to determine the why or how of promotional results.

Only through collaboration will the complete version of the truth be obtained. At least, collaboration will foster a sincere attempt to align objectives and goals to ensure mutual accomplishment. It is as if a puzzle is being constructed and both manufacturer and reseller have pieces of the eventual completed picture. There should be, and most often is, only one version of the truth.

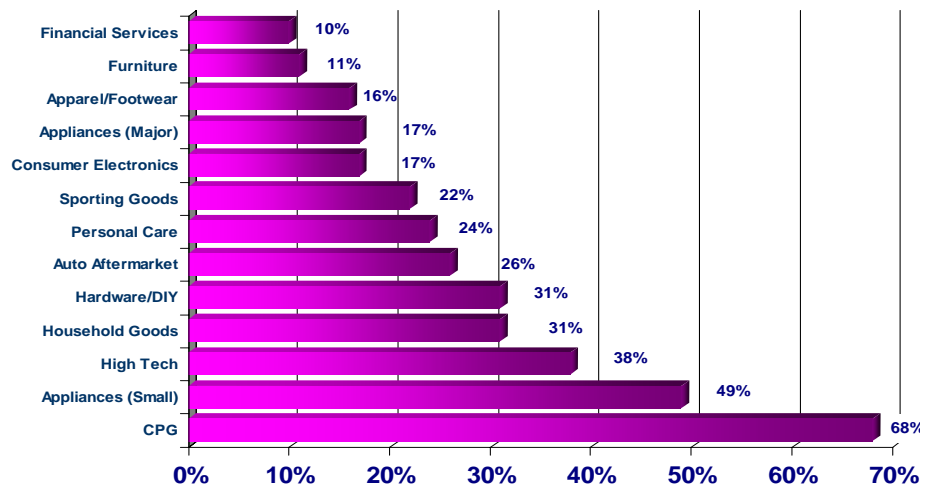
### **Convergence of Plan and Action**

While it is agreed that the process of promotion planning is maturing, especially within CPG, it is also so feared by many manufacturers that it often is not used to guide performance. In a recent study conducted by Hand Promotion Management, more than 60 percent of the manufacturing community surveyed indicated a variance between planned and actual performance that exceeded 40 percent.<sup>5</sup> In some industries, such as CPG, where deduction research is spotty at best, that variance is even higher—often showing some categories reporting greater than 70 percent variance between what was planned and what eventually performed.

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<sup>5</sup> Hand Promotion Management’s survey on trade channel promotion includes 759 manufacturers in a variety of industry categories.

## Variance in Plan vs Actual



Source: HPM Survey on Trade Channel Promotion, 2003

**Figure 2: Variance between planned and actual performance as reported in a survey of 759 manufacturers in different industries.**

Performance as an indicator here implies not just promotional activity, but also committed revenue, product mix, and even profitability (for more sophisticated planning systems and practices). One thing noted in the survey however, was that the less sophisticated or available the planning processes, systems, and technology were, the lower the number for calculated variance.

**Many manufacturers believe that the most effective way to guarantee the accuracy of financials is to enforce a strict discipline of planning to execution and execution to settlement. Improved promotion analytics, especially considering the breadth and depth of data the manufacturer can bring, will cause more retailers to dramatically alter their reluctance to collaborate fully on promotion planning.**

Manufacturers universally agree that the main problem behind this variance is the retail channel's lack of respect for and ignorance of formalized planning. Surprisingly, the major resellers themselves do not challenge this. In a survey of over 150 major trade channel companies conducted by Hand Promotion Management, more than 70 percent of them believed that the promotion planning process, although important, was not something that fixed performance mandates or disabled any flexibility to adequately react to local market conditions. With the Sarbanes-Oxley Act however, there will be more scrutiny on both sides of the channel for commitment of trade funds and the subsequent activities performed in compliance with those commitments. Further, many manufacturers believe that the most effective way to guarantee the accuracy of financials is to enforce a strict discipline of planning to execution and execution to settlement. Improved promotion analytics, especially considering the breadth and depth of data the manufacturer can bring, will cause more retailers to dramatically alter their reluctance to collaborate fully on promotion planning. They will also be driven to perform to the level and terms of their commitments. Only then will variance measurements be meaningful, and manufacturers and their trade customers will be able to rely upon promotional performance plans as a true path toward expected performance and results.

## **ADVANCED CHANNEL EXECUTION**

The Sarbanes-Oxley Act and the recent FASB changes in accounting for trade promotion spending have combined to change the trade channel promotion practice forever. This is true not just in the U.S., but all over the world. Further, the already improved supply chain collaboration practices associated with the strong push by industry trade associations and organizations, such as the Voluntary Interindustry Commerce Standards (VICS) Association and National Association for Promotion and Advertising Allowances (NAPAA), have increased chief executive focus on improving the efficiency and effectiveness of trade promotions. This increased focus manifests itself in the rapid growth of promotion analytics and affects the way most companies go to market today. The old methods of planning for the sake of establishing a number have given way to the more important mandate for improving overall promotion spending performance.

### **The Supply Chain Management Hook**

Supply chain management technology has elevated trade promotion management beyond simple transactional processes and a long-standing reputation as a necessary evil in marketing and sales strategy. Improving the movement of products, logistical support, inventory management, and a host of other key supply chain management objectives places more emphasis on how the products are promoted and the expectation of achievement of goals.

The “hook” refers to the natural connection between the elements of trade promotion analysis and the improvement in velocity of products through the supply chain. Traditionally, the emphasis of trade promotion has been to push the products out the factory door and into the warehouse of the channel reseller or distributor, and nothing else. The idea of retail execution, for example, is for most industries nothing more than ensuring that the documentation for proof of performance is forwarded with the claims for reimbursement.

Related to this problem is a history of poor performance. In many industries, the practice is called channel stuffing, or front-loading, or a number of other more defamatory labels that put the responsibility for promotions and consumer sales results 100 percent in the lap of the channel customer. It is no wonder some manufacturers have lost the respect of the trade channel. But with a supply chain empowered with precise and trustworthy analysis of trade promotion performance and results, the older paradigm represented by the graphic below changes to one that enables more fruitful collaboration—including promotion planning and analytics as a major portion of that collaborative process.

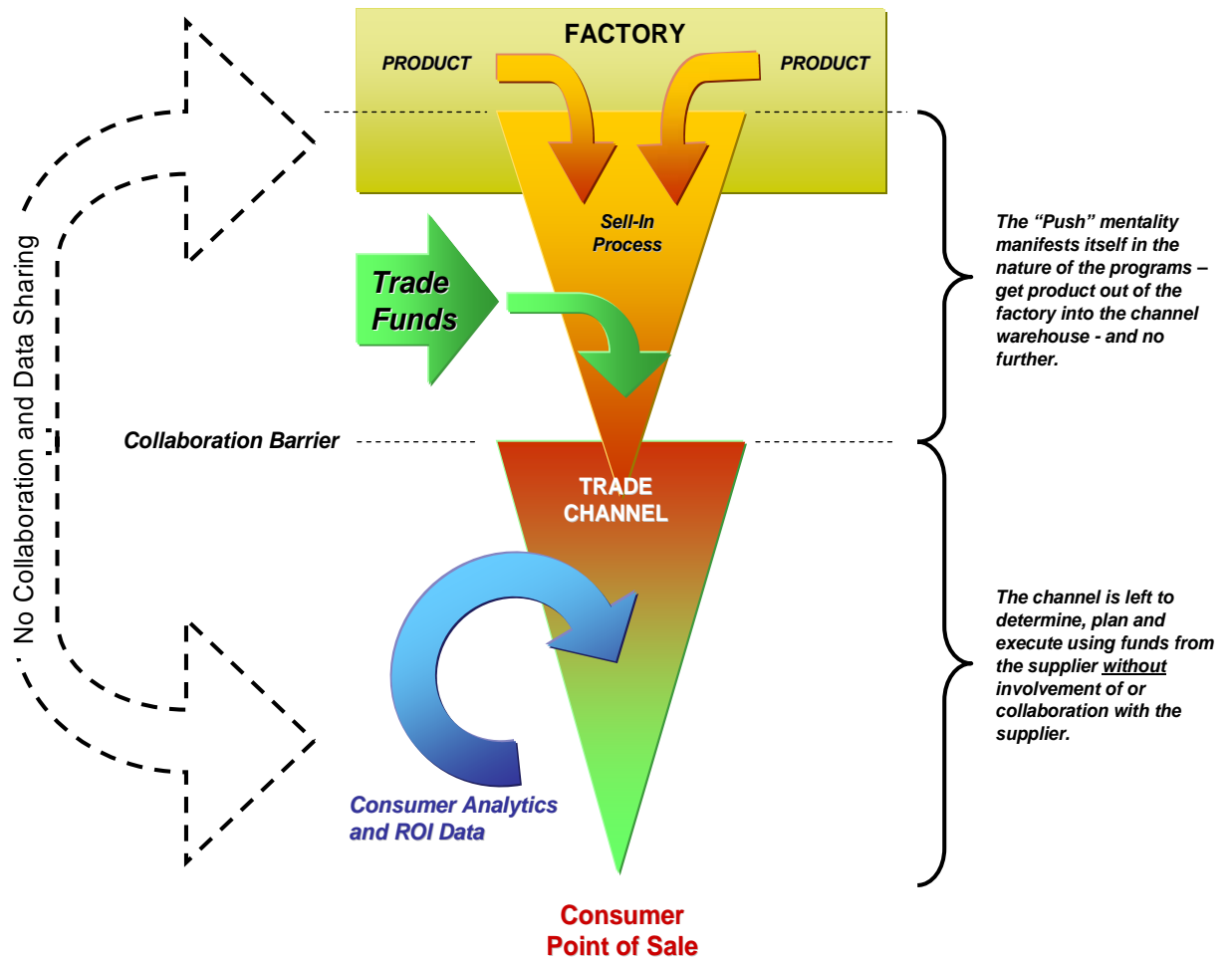


Figure 3: A selling tactic of a consumer goods manufacturer might be to “push” the product into the channel through programs generally designed to fill warehouses rather than to assist in the natural “pull” through or sell-through to the end consumer.

Most TPM software solutions were designed as transactional systems and lack the underlying architecture needed to automatically and comprehensively quantify promotion impact. These systems can import consumption data and provide standardized reports, but they overwhelm sales and marketing managers with information rather than making sense of it.

What's needed to take promotion evaluation to the next level are integrated data mining capabilities that can accurately separate promotion lift from baseline, account for effects such as cannibalization and post-promotion dip, and match net promotion lift with dollars spent. This creates a meaningful measure of value. And to translate analysis into action, TPM systems must incorporate data on past promotion performance into predictions of future performance. They must also automate the promotion planning process with optimization technology. This can quickly recommend the best promotion to run in a particular circumstance.

## Evaluating Performance

The dotted line arrows in Figure 3 above illustrate the absolute lack of collaboration between the channel and the manufacturer today. In most industries, including apparel and footwear, hardware, high technology, and consumer electronics, the issue of co-op advertising and marketing development fund planning and execution continues to be owned and dominated by the channel—especially the largest retail chains. But with the percentage of trade spending reaching as high as 15 percent for consumer durables manufacturers, most of these channel customers know that the days of capitulation to funding demands are virtually over.

### Case Study: Consumer Electronics Retailer

A major high technology retailer attempted to position itself as a leader in low cost PDA products. Its intelligence showed that buyers would take medium functionality at a lower price. Also, based on previous cellular telephone rebate fulfillment results, they believed that there would be less than a 10 percent fulfillment rate for PDA rebates. Attempting to bargain lower prices and huge rebates with the top four vendors proved difficult, but the retailer convinced them that a low lead-in price would move the market faster. The top two manufacturers refused the deal and opted to offer more co-op advertising instead of a lower price. They indicated that PDAs are often bought by executives for their functionality and not as much for the price, and that now was not the time for heavily discounting these products. So the retailer instead established the third- and fifth-largest PDA vendors as their primary providers. They agreed to larger purchases from these vendors, and they reduced their purchase of the top two PDA lines.

The promoted products failed to deliver the revenue targets, and the top two PDA products were sold out (due to the lack of sufficient inventory and the subsequent failure to replenish appropriately). The retailer lost a huge margin of profit, and eventually the leadership for PDA products in virtually every market they served. To make matters worse, the rebate fulfillment topped 60 percent redemption, and the total loss worsened. Further, the lack of market development funds available by the top two PDA vendors for future promotions cost additional advertising capability and the further erosion of their share of this huge product market.

This case study shows how the lack of collaboration between a retailer and PDA manufacturers—in addition to the lack of trade promotion management tools—led to a huge loss of profits and market share. Never before has evaluating promotional activity been more keenly cemented in the concerns of the finance and marketing organizations. Sales forces still operate largely on incentives to drive volume to the channel warehouse, not through to the consumer, but even those norms are changing. Several companies have begun to alter internal compensation incentives to favor more stringent alignment of promotional objectives with key trade accounts; however, their philosophies have outpaced their ability to provide tangible support to the sales force to accomplish these new tasks. That is why

today, the ability to track, measure, and analyze performance is in such high demand.

Unfortunately, there are few vendors that provide such valuable and competent trade promotion analytical tools, and there are fewer internal information technology organizations that have the understanding, domain expertise, and resources to design and develop such systems.

## **THE TRANSACTION-PROCESSING SYSTEM**

For the most part, TPM solutions have been constructed to accommodate the more elementary and routine aspects of transactional processing. This includes, but is not limited to

- Preapprovals—Systems that enable the rapid routing and communication of prepromotion content and activity approvals
- Fund accrual—The ability to calculate, store, and account for the funding generated by sales revenues or other performance criteria
- Master account files—Maintaining an accurate listing of accounts, contacts, and trade promotion program performance history
- Claim processing—Receiving, enabling input of documentation audits, and routing of questions, approvals, or other communication relating to the eventual disposition of the reimbursement request
- Deduction management—Input of short pay (deduction) data from accounts receivables, enabling research and communication control of the issue, and final evaluation and identification of the charge, followed by the appropriate routing of disposition
- Settlement—Systems that provide the ability to pay, credit, offset, or reject claims for reimbursement, rebates, and deductions
- Reporting—Pure activity output showing performance, result of transactions, or other top-line intelligence, but with little or no inherent analytical capability

Most TPM vendors build systems that accomplish these functional requirements. In addition, most of the existing TPM-specific systems in place today are internally designed and constructed to accommodate these basic transactional functions. Also, some ERP systems can do some of this work, clearly not as a TPM function but as an internal function within their own accounting and communications systems.

## **SETTING A REALISTIC BASELINE**

The drive for TPM excellence has not been the result of recent FASB accounting changes or the advent of global regulatory legislation such as the Sarbanes-Oxley Act in the U.S. Rather, it is the product of an out-of-control process that has cost

manufacturers hundreds of billions of dollars in failed promotions and poor sales performance, and in many cases has caused their full demise. Trade marketing today is defined as collaborating with the trade customer, sharing data from both sides, and planning and executing programs with precise, consistent, and trustworthy results.

**Before you can understand the impact of trade promotions, you must first understand your baseline volume—what sales will be in the absence of trade promotion. It's easy enough to view sales history after a promotion and eyeball volume before and after to estimate baseline. But how do you forecast in advance what your baseline will be? Simply using last year's figure isn't enough. To accurately forecast baseline volume, sophisticated analytics are required.**

**Such analytics must consider seasonality, long-term trends, and holidays. Multiple factors that affect demand must also be considered, such as trade promotions, pricing, consumer promotions and advertising, competitive activity, and weather. Only with the resulting comprehensive understanding of demand can you establish a starting point for analyzing the impact of promotions.**

But before this can be done, most manufacturers have problems setting the baseline—the figure that represents the starting point for calculating performance goals and generating realistic scenarios that can be proven and deemed sound. The “version of the truth” factors in here also, because different data creates different baselines. For most companies, there is a large pool of information but little effective technology and domain expertise to translate that data into a solid, accurate foundation.

Most companies in consumer durables depend upon the historical evidence to generate their baselines. One apparel executive called it “worse than averaging averages” because it was nothing more than taking the historical performance over the years and averaging it by the number of years tracked. This method made no allowance for environmental factors, competition, time frame, or geographical differences, and simply stacked up the entire sales area as homogeneous. To generate a baseline value properly would require significant manual intervention, typically using spreadsheet processes and considerable time investment—something few sales and marketing representatives possess. In many ways, it illustrates the old adage, “Garbage in, garbage out.”

### **Fact-Based Selling**

The best promotion plans are of little use unless the manufacturer can convince the channel partner to buy into the plan. This is particularly true in the CPG sector, where manufacturers drive detailed promotion calendars. Not surprising then is the new emphasis on fact-based selling: selling promotion plans according to analysis of how similar promotions have done in the past and are predicted to do now. Without compelling and credible reasons to act on manufacturers' promotion plans, retailers are increasingly using trade dollars as they see fit.

The key to successful fact-based selling is to look at promotion performance from the retailer's perspective. It's not enough to show how much lift a promotion will generate; the retailer wants to know what effect it will have on overall category and store sales. A promotion that simply shifts volume from one manufacturer to another isn't particularly attractive to the retailer. But a promotion that drives store traffic and produces results for the retailer beyond the impact on the promoted product can be irresistible. Today's manufacturers need tools that can provide these types of analyses to convert the skeptical buyer into a believer.

### **Analytics Integrated with the Supply Chain**

In the consumer goods industry, effective trade promotion includes the ability to manage the execution of all promotions. This requires an effort by both the

manufacturer and the trade customer to ensure that shelves are properly stocked, merchandising is in place, displays are stocked, advertising is run (on time and media committed), and enough stock is in the pipeline to ensure that the consumers get what they want.

#### **Real-Time Point-of-Sale Monitoring**

**The increasing availability of daily store-level POS data gives manufacturers a whole new level of retail execution capability. In the past, manufacturers relied on manual audits done by the retail field force to see what was actually happening at retail. Typically, manufacturers crossed their fingers and found out about execution problems weeks later from aggregate-level syndicated data. Now, with daily uploads of POS data, manufacturers can monitor sell-through and detect stock-outs, voids, and lack of merchandising support, and correct these problems before it is too late. Similarly, manufacturers can refine promotion forecasts based on initial sales and respond to unanticipated levels of demand.**

A powerful analytical tool integrated at key points of the supply chain, for example demand planning, budgeting, allocation, planning, and commitment, helps to ensure that both the manufacturer and the retailer are using the same baseline. This integration also ensures that their goals and objectives are aligned, and that field personnel know what is going to happen, when, how, who is responsible, and what is expected. Finally, it provides those in action with a clear and distinct method and process for communicating issues, and guidelines for rectifying any problems that occur during the promotion. The high technology industry is very strong at this process. For years, the key distributors in that industry, such as Tech Data, Merisel, and CDW have all had strong processes that monitor, report, and rapidly escalate issues so that they can be dealt with accordingly. Dillard's, one of the nation's largest department store chains, also provides its manufacturers with access to data, and controls that help to ensure planned performance and reduction of variance.

#### **GETTING THERE FROM HERE**

The move to an integrated analytics TPM process is a significant change in two key areas. First, it means companies must ensure that the technological foundation is in place and the analytical tools themselves are acquired and installed. Second, and highly critical, the paradigm of thinking must change. The "go-to-market" strategy will not change, but tactics will. The application of results from powerful trade promotion analytics will take education and communication, as well as a commitment from upper management to dictate and enforce new processes and policies that produce better promotions.

Those who initiate these programs must understand how important and perhaps difficult these changes can be. The costs and commitment of time and energy to deploy integrated analytics are significant, but generating the environment of change and accepting change internally might be even more difficult. It will mean making the commitment to your channel partners to enhance their own revenue and profitability by offering them a bona fide planning tool that can help guarantee better use of existing funds and more effective promotional results.

For the chief executives who have more riding on TPM than ever before, it also means accepting these changes and fully supporting those agents that represent this new direction.

#### **Potential Pitfalls**

Change always presents challenges. Standing still is not an option, but any effort to redesign trade promotion practices must be approached carefully. Consulting those with experience is well advised. Following are two examples of TPM redesign efforts gone awry.

### **Case Study: Hardware/DIY Manufacturer**

After completing implementation of a new ERP upgrade, the organization agreed that it needed new analytical tools. It selected a vendor to provide TPM analytics including introducing distributor POS and other historical co-op and market development funds activity from actual documented claims and deductions. The due diligence was significant, including a communication from the CEO that required all sales representatives and marketing planners to adopt the new system and train for implementation in the next quarter. The training program was a disaster, and the system failed to produce believable results. The fledgling “what-if” scenario technology also failed to receive endorsement from the largest distributors and the two key retail customers, Home Depot and Lowe’s. After conducting a post mortem, the organization found the following flaws in the original process of gathering business requirements:

- The data on hand was not accurate because auditors from the outsourcing agency often input the wrong information, or substituted “Other” and “Various” values that were meaningless in calculating realistic baselines.
- Sales forecasts were not accurate and often little more than educated guesses of current year projections, rather than more exact projections based on deeper analysis of retail performance.
- The ERP system combined payments to one account, completely destroying detailed payment data and disabling any connection between the actual audited promotional activity information and the trade spending. This was overlooked during the due diligence and requirements gathering processes.
- Distributor POS data for second tier resellers often contained multiple account numbers, resulting in numerous duplicates for the same retailer. No one paid attention to this problem.
- While baseline forecasts were generated, management had no formula or expectation for targets, so the integration team created their own sample targets; no changes were made to these sample target values when the system went into production.

### **Case Study: Sporting Goods Manufacturer**

A TPM system was installed with a full analytics suite. But the product was never used, even with an edict from the top that “heads would roll” if it were not utilized. Under pressure to produce, the sales organization and the TPM administrator provided the following results of their analysis of the business requirements process:

- Much of the sales forecast detail was rejected by the system because the spreadsheets used by the field were inconsistent and did not match with the interface programs.

- Management did not provide the vendor with adequate definitions of product types, therefore the system could not analyze product performance at lower than a top-line level—which was useless to the retail customer and the representative.
- The sales representative firms that managed the large number of medium accounts did not have the consistent technology to adequately host and support the product’s key software rules-engine component.
- The system did not work on a Netscape browser—the preferred browser for the west coast sales organization.
- Claims that were split due to the incapacity of capturing multiple funds for a single promotional event were not reconstituted so that true promotional activity could be tracked. Multiple advertisements appeared to run, when in fact only one advertisement appeared. This discrepancy greatly skewed the results.

A number of similar stories exist, but the bottom line is that implementing an integrated analytics system requires a more in-depth discovery and analysis of business needs, and even to a level of detail not considered for a normal TPM installation.

## **CONCLUSION**

The practice of trade promotion management is undergoing profound change. This is a result of new regulatory requirements and a new imperative to ensure that trade funds deliver true bottom-line results for both retailers and manufacturers. Manufacturers, who have traditionally viewed TPM software as a transactional tool for administering trade funds, are now looking for more. Required is a robust analytical foundation, integrated with transactional functionality, to help manufacturers design more profitable promotions and execute these promotions more intelligently with retail trading partners.

Oracle’s Demantra trade promotion management solutions use powerful analytic tools that combine historical data with sophisticated statistical modeling, for a level of precision and trust that results in a confident projection of forecasts and promotion planning. Most enterprise TPM vendors have begun their functional component modules with more transaction-oriented deduction management or settlement applications, and continue to build the suites with promotion planning, funds management, and finally promotion analytics. Oracle’s Demantra solutions include this critical component as their first component module. This is a smart course of action because it represents a commitment to the one function of TPM that truly integrates with so many other ERP, supply chain, demand planning, logistics, and sales force automation systems.



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Oracle Corporation  
World Headquarters  
500 Oracle Parkway  
Redwood Shores, CA 94065  
U.S.A.

Worldwide Inquiries:  
Phone: +1.650.506.7000  
Fax: +1.650.506.7200  
[oracle.com](http://oracle.com)

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