



Beyond Analytics

Optimization of Trade Promotion

THE NEXT EVOLUTION OF TRADE PROMOTION MANAGEMENT EXPANDS THE BREADTH OF INTEGRATED ANALYTICS by linking trade promotion planning with demand management and operations planning. This will happen on both sides of the trading partner relationship, driving more effective collaboration between the supplier and the trade channel customer. Here's what to expect.

BY ROB HAND

Strategic Solution Specialist, Trade Promotion Management

ORACLE CORPORATION

■ FOR DECADES, CPG COMPANIES HAVE STRUGGLED TO REACH THAT ELUSIVE GOAL OF TRADE PROMOTION SPENDING — ROI. Making it an IT priority to focus on trade promotion has typically resulted in a supporting technology designed to, at a minimum, manage the generally heavy workflow and pure volume of transactional processes of planning, fund accounting, deduction management and settlement. Those companies considered industry "best practice" were those that could go beyond the continual patch-working of legacy and/or single-solution transactional systems and create actual historically-based analytical tools to provide insightful intelligence on performance of trade promotions.

CENTERING ON THE TERM "PERFORMANCE" INDICATES THAT EVEN THOSE BEST-OF-BREED ANALYTICAL TOOLS WERE GENERALLY LIMITED to detailing the basic action taken on the promotion and, to some degree, the resulting gross revenue it generated and the funds it consumed. For the record, ROI was typically characterized and defined as the *incremental revenue lift* generated against the actual and total cost of the promotional activities.

FOR A WHILE, THAT SEEMED TO SATISFY MOST OF THE C-LEVEL EXECUTIVES.

Now, however, the bar has been raised. Now, management is asking: "Knowing what we now know, how can we maximize the value of every single dollar, pound, euro, yuan and yen of trade spending?"

In other words, how can we use our new-found promotion performance knowledge to optimize the sales forecast and promotion plan?

Sarbanes-Oxley and FASB changes have forced most large public CPG companies to mainstream trade promotion awareness, operational efficiency and analysis.

Why? Because since October 2001, FASB has mandated that the bulk of trade spending in North America be characterized as a reduction in revenue rather than an expense.

This change in accounting threw that huge line item right up into plain view of everyone — board members, shareholders, the press and yes, even the C-level executives who, for the most part, couldn't have told you much about trade promotion before.

Couple this with Sarbanes-Oxley, especially the Section 404 requirements, and trade promotion and the management thereof has become a major issue.

And as a result of the efforts made to close the loop on the transactional management of these programs, the entire corporate suite has become aware of just how much information can be derived from tracking and measuring trade promotion, and its tremendous value to other components of the supply chain.

LATELY, TECHNOLOGY HAS IMPROVED SIGNIFICANTLY IN THE AREA OF PROMOTION ANALYTICS. Not only are the point

solution vendors lining up strong new initiatives, but the major software houses are clearly focusing a considerable effort on improvements in trade promotion measurement and analysis. This new technology enables a much more powerful and comprehensive statistical analysis foundation from which information about the true nature of incremental performance results can be derived.

In turn, it can now be combined with demand signals to create real-time sales and operations planning with the precision and trust needed to convince skeptical retailers that collaboration on trade promotion is not only smart, but necessary. This technology enables a much more powerful and comprehensive statistical analysis foundation from which information about the true nature of incremental performance results can be derived.

It is used to combine with demand signals to create real-time sales and operations planning with the precision and trust needed to convince still skeptical retailers that collaboration on trade promotion is not only smart, but necessary.

HOWEVER, WITH NEW TECHNOLOGY COMES A NEW PROBLEM in adaptation and acceptance of new policies and procedures.

With more powerful and sophisticated trade promotion modeling, optimization and analytics technology, the planner must be proficient with the use of technology, of course; but now s/he must also understand the depth of data and the need to do a thorough job of assessing and inputting promotion tactics, dates and products.

Where spreadsheets or basic promotion planning systems often forgave missing entries or anecdotal data that resulted in bad reports, no longer is that acceptable. The data-intensive and value-sensitive technology of today's modeling and optimization products requires more time and energy. Knowing how to read, translate, and then apply the intelligence gained is at least



To a remarkable degree, optimization has been like Johnny Carson's predictably hilarious "The Tonight Show" routine as "Carnac the Magnificent" — the reply of a predictable question to a known answer: "What does the promotion look like that will absolutely achieve my goal?" (Answer: "We have yet to figure that out.")

as important as having the tool. This will require more in-depth training, not just into the use of the tool, but into the meaning of the data.

To make this all happen, the top levels of management must invest their own time and attention to supply the discipline that enforces policies and procedures necessary to compete in this new promotion planning environment. For our customers, this has been a rewarding effort — a commitment that pays off because the results can be phenomenal.

Optimizing the Promotion Plan

SO WHAT, EXACTLY, DO WE MEAN BY OPTIMIZATION OF A PROMOTIONAL PLAN?

Until the advent of today's tools, one might draw an analogy between the above and the late Johnny Carson's "The Tonight Show" personification of the magician / swami caped character, "Carnac the Magnificent." After a rousing introduction, the entry of Johnny-as-Carnac would always end in some slapstick fall, dive or crash into his chair at his desk. He would then be handed an envelope by his trusty sidekick, Ed McMahon, which he would press to his feathered and bejeweled turban and speak an answer. Then he would tear open the envelope and read the question, thus cementing his reputation for being the all-seeing, all-knowing Carnac.

This, to a remarkable degree, is what "optimization" has been: "What does the promotion look like that will absolutely achieve my goal?" (Answer: "We have yet to figure that out.")

In fact, promotional optimization is the use of extensive syndicated, POS or shipments historical data to statistically compare, select and display the most effective combination of tactics to accomplish a given objective. It requires that elements input by the user/planner such as customer, shipping dates, performance date range, product and cost be merged with historical financial ROI, market share achievement, consumption and lift coefficients to produce a single best option for consideration.

The "secret sauce" is the statistical foundation upon which the calculations are made. Demantra uses Bayesian-Markov as its base statistical foundation. Others use different statistical models and criteria, but the principles are the same — use the broadest base of historical and market data to deliver the optimum promotion — one that can be accepted by

both sides of the distribution chain.

ALTHOUGH THE TERMS ARE OFTEN USED AS SYNONYMS, THERE IS A DIFFERENCE BETWEEN MODELING AND OPTIMIZATION, and different application for multiple scenario promotion modeling and one-shot optimization.

Modeling is, for most technology today, the limit of its capability to compare and determine the most appropriate promotion. Optimization capability is still not widespread and therefore, given its complexity in development and testing, not widely deployed by enterprise TPM software vendors. Modeling is manually entering data and running "simulations" using a statistical calculation engine against those variables to produce lift expectation, incremental sales, profit and other objective measurement indices.

Optimization is best used when considering no specific set of tactical blends, but where there are specific constraints such as budget, time, profit, revenues, off-invoice discounts rates, and so on. It is considered by many to be the ultimate collaboration tool, where the rep and buyer work together to formulate a joint plan quickly and with confidence in the results.

Real Time, Real Demand-Driven

Some argue that the whole idea of optimization began in the demand planning arena, and perhaps it did. Clearly, the early initiatives of Collaborative Planning, Forecasting and Replenishment (CPFR) made all of us work to find ways to generate true and accurate one-number forecasts. No doubt the industry attention given to the problems of demand and supply chain management opened the floodgates of innovation in statistical analysis and stretched it to cover promotion planning as well.

THE TIMING COULD NOT BE BETTER — as noted earlier, the financial and regulatory changes have put a spotlight on trade promotion and increased the demand for performance and accountability.

New technology is beginning to show that promotional optimization can indeed transform our businesses. Being able to see this technology in action, in real time, is tremendously exciting for many of us in the trade promotion management field. We have been craving it for years. ■