

Winning at Promotion Optimization

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Trade Promotion Optimization, Trade Management, Hormel Foods, Oracle OpenWorld

Overview

Trade promotion optimization is an application with very high ROI potential. It is an application that can both increase sales and increase the margin associated with trade promotions. But to achieve success, trade management applications or services must already be in place to generate the

Trade promotion optimization applications can truly be considered strategic for large consumer goods manufacturers. This application can increase both sales and the margins associated with promotions.

necessary data and help execute the trade events. Further, significant cultural obstacles must be overcome.

A case study of Hormel Foods Corporation ongoing journey to improve the ROI associated with its trade events follows.

Hormel's Journey

At Oracle OpenWorld, Kevin Kroymann, Director of Trade at Hormel Foods Corporation, gave a presentation about the company's journey to improve the returns that Hormel gets from its promotions with leading grocery retailers.

Based in Austin, Minnesota, Hormel Foods Corporation is a multinational manufacturer and marketer of high-quality, brand-name food and meat products for consumers. The company offers a wide variety of products including hams, bacon, sausages, franks, canned luncheon meats, stews, chilis, hash, meat spreads, shelf-stable microwaveable entrees, and salsas. The company has 31 brands that are number one in their respective categories. It achieved sales of over \$7 billion in 2010.



Hormel's journey to improve its returns on promotions began back in 2004 when the company's CEO challenged the sales and marketing group to grow sales at a rate faster than their budget for trade promotions.

In 2005, the company started by buying Siebel's Trade Promotion Management solution. Oracle acquired Siebel that same year. In that same period, Hormel looked at Demantra for trade planning and optimization, but concluded that while it was a best-of-breed demand management supplier, the company was just too small for it to do business with.

Hormel's experience with Siebel was that while the solution allows the company to capture its trade transactions and begin the process of better executing trade promotions, this set of capabilities would only take it so far. The company needed forward-looking analytics that could help predict the ROI of trade promotions in advance. Win-win, high ROI promotions are the ones Hormel wants to pitch to the large grocery chains.

In 2006, Oracle acquired Demantra. This gave Hormel the confidence to go forward with an implementation of Oracle's Demantra for trade planning and optimization. Hormel implemented Demantra in 2009. Hormel was the first company to implement an integrated trade management solution that included Demantra and Siebel to support an end-to-end trade planning/optimization process.

Process	Oracle Application Supporting the Process
Store Execution	Outsourced to Acosta
Trade Plan	Demantra
Trade Events	Siebel
Trade Check Book	Demantra
Promotion Forecast	Demantra
Trade Analytics	Demantra Analytics are pushed into Oracle Business Intelligence

Hormel's Integrated Trade Management Optimization Solution Implementation

Benefits from Demantra Implementation

Hormel has achieved a number of benefits from implementing Oracle's Demantra.

The 60-day trade promotion forecast accuracy, previously 18 percent, now is now greater than 50 percent (account/period/product group level).

Prior to implementing Demantra, one-third of the company's promotions did not even cover the incremental spend associated with the promotion. Further, half of its trade promotions generated no significant lift. Oracle's Demantra solution allows Hormel to project the gross margin ROI of a given promotion with much higher accuracy.

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solution has allowed it to save millions of dollars. The math associated with the savings was said to be based on conservative estimates.

The cultural changes associated with using Oracle's Demantra solution effectively have been difficult. The company has used the forward-looking analytics for 30 different promotions.

Twenty-three of these were successful, with many more planned for the future. Based on this, the potential long-term savings are much greater than what the company has already achieved.

Evidence suggests that the relationship between Hormel trade account executives and selected retail account buyers is improving. Where Oracle's Demantra math has proved itself, the buyers are asking Hormel to come back and pitch other opportunities. This can help Hormel cement itself as a category captain.

Last Word

Trade promotion optimization is at an early maturity level across the consumer products industry. This is because baseline trade promotion management solutions must be in place before trade optimization can become fully effective. Further, any application that changes the way the

sales force operates will always require more executive support to overcome cultural hurdles than is typical for other application/process areas of coverage.

Finally, it is probably true that trade promotion optimization will have the highest returns for category captains than for smaller manufacturers. A trade account executive needs to show a retail buyer that the promotion will generate significantly more in new sales for the retailer than it will cannibalize in sales of other brands in that category. The category captain has access to the sales and historical demand generated by competing brands. Smaller manufacturers often do not have access to such data.

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