Trade promotions management: Radical rethinking of its operations

Modern customers are so fickle, demanding, and well-informed that trade promotion management (TPM) has become more challenging. Despite all that, retailers and manufacturers are averaging 5-10% improvement in bottom-line impact through effective TPM built on technology-enabled business process operations that leverage analytics and an integrated process approach in a more “industrialized” way.
Shoppers today are volatile, value-conscious, highly informed - researching prices and products before they even put a foot in the door, virtual or otherwise. In an attempt to attract these increasingly sophisticated shoppers, the typical consumer products company has started three trade promotion projects and churned through three TPM applications\(^1\) in the past five years. But is this working?

Trade promotion is the third-largest P&L item but often suffers from a lack of accountability, poor strategy development and communication, and undefined objectives. Many companies have no means of predictive modeling or post-promotion analysis, and choose sub-optimal TPM tools that do not mesh well with IT systems or foster efficient processes.

Yet a consumer packaged goods (CPG) manufacturer that used analytics to evaluate product performance in different aisle conditions, showed 40% higher brand performance in results. A major U.S. packaged foods company applied a scientific approach to over 600 shopper events and achieved more than 20% improvement in event and tactic effectiveness.

What were they doing right?

The key to such results lies in coordinated planning, scale-able and granular analytics, and a comprehensive suite of business, process, IT, and architecture services that integrate TPM with the rest of the CPG organization.

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\(^1\) Supply Chain Insights LLC 2012 Survey.
Process

Agility is the key to keeping pace with shifting, and dynamic consumer behavior. Effective and adaptable processes are therefore essential to successful TPM efforts. Industrialized business operations models leveraging shared services, outsourcing or Global Business Services (GBS) can pull together the many diverse functions involved, from account planning and forecasting to analyzing spend and customer response. Such service models benefit from economies of scale and specialized process-operation practices, create a streamlined, standardized process with accountability from end to end. Robust analytics are required to measure effectiveness and provide timely insight into customer behavior and response to TPM efforts for faster and accurate decision-making.

Technology

Technology enables BPM and supports the delivery organization. The chosen tools must link the varied TPM sub-processes, and support the critical analytics needed to evaluate effectiveness. When assessing technologies, organizations must determine tactics to combat competition, success measures, and whether current, critical data is adequate and accessible. Where will your people work from and how will they access that information? What do customers consider important and how do you benchmark those measures?

People

From Fulfillment to Sales to the CFO’s office, attaining buy-in for a new TPM approach is critical, as is a clear understanding of who is, and should be involved throughout the TPM process. The right people in the right roles, with the right skill sets will manage and take ownership for the success or failure of each TPM initiative and coordinate it across the enterprise. Goals must be clearly established and documented, and well-understood mechanisms for measuring success must be in place. Technologies must support each stakeholder and provide easy access to required information and reporting. And finally, Global Process Owners (GPOs) can optimize the design and operation of the process end to end, even if they don’t oversee directly all the related staff.

Because it touches such a wide spectrum of the enterprise, a more sophisticated delivery model structured to manage the entire process from end to end, will deliver the highest returns. The goal is to craft a TPM program that improves the predictability of retailer promotional charges and is more effective in targeting trade spending when, how, and where it will most benefit retailers and manufacturers alike.

Transparent, frequent, and granular coordination of the sales forecast with supply chain planning processes is essential. Taking an industrialized approach to TPM not only increased the chances
of integrating all the various stakeholder requirements; it also can provide instant access to specialized skills and proven best practices on a global scale, and deploy technologies that enable global access to information so that all parties are working on the same page, toward the same goals.

Getting the most from TPM technologies

Given the complexity of the process and all the people involved, it is hardly surprising that satisfaction levels and overall success in TPM initiatives – particularly those with a significant software component – have been limited over the past decade. Enterprises have tried to serve all possible constituents with a single software package, an approach that is unlikely to meet expectations unless there is a fundamental change in thinking.

In order to realize return on their investment, organizations should evaluate these tools with an eye towards the overall process. Modern TPM packages are highly dependent on clean, timely, and consistent master data, and fueled by the exponential growth of data available for planning and analysis. They offer powerful capabilities in accommodating product categories, distribution models, mobility platforms, and workflow, but can only be as effective as the underlying process.

Process is the key, not functionality

It is necessary to determine functionality that is critical to core end users in the performance of their jobs and that must be available in the application. For instance, what will primary end users extensively engaged in software evaluation require? Then decide what functionality (such as mobility) the organization can wait for, and whether the software provider can include such capabilities later. Some functions and aspects of the business perhaps can be left out of scope completely. Are there areas that are marginal or contribute less to TPM spend or sales revenue? Do they have specific processes and requirements? Can they be omitted without diluting ROI?

Organizations can also use the “80/20” rule to determine where a simple approach in which 20% of the work delivers 80% of the results is sufficient. For instance, is a simple approach to promotion approval sufficient, or is a more complex process required?

Consider what improvements or automation are needed and can be done outside the TPM software. For example, is it really critical to perform post-promotion analysis within the TPM software, or can it be done elsewhere and linked in? This can reduce the burden on the software requirements while still improving the overall process.

Three steps to effective TPM

As shown, technology depends on people and processes, which are equally important components of a TPM program, that increases revenue and reduces cost to serve. Fundamentals of TPM transformation include:

- **Consulting the sales organization** at each step, including adjusting MBOs (management by objectives) to recognize those individuals accepting additional responsibilities
- **Process reengineering** and design, with a passionate commitment to process improvement, harmonization, and simplification. Designate clearly defined owners for each process area
- **Evaluating different delivery models** for TPM operations: Global Business Services (GBS) options - Shared Services (SSC), Business Process Outsourcing (BPO) or managed services, that provide the best mix of global expertise, process harmonization, and economies of scale for cost-effective and successful TPM efforts
Related best practices include:

- Centralizing fund management and ownership of all back office activities at the headquarters to ensure accountability for spending and return on investment
- Offshore execution of TPM-related, transaction-oriented work such as settlements, deductions, and claims
- Architecture, business, IT, and process integration services for the TPM tool to align it with the rest of the CPG organization
- Scale-able and granular analytics for promotion lift and baseline planning, forecasting, and post-event evaluation, configured to client-specific situations

Working with a partner can reduce complexity and provide opportunities to for a phased approach, driving process and change initiatives and relieving the stress points that often burden TPM packaged software projects.

This approach can generate substantial impact. One major global consumer product manufacturer implemented a TPM solution in the U.S. that integrated promotion setup and funds management with deductions management. Its focus on promotion modeling resulted in a 50% increase in forecast accuracy. An European snacks manufacturer reduced its decision-making cycle by 15%, a critical competitive advantage in such a short-cycle business, by simplifying and standardizing promotional processes and acquiring the ability to model and compare multiple what-if promotional scenarios.

An effective journey starts with business process operations - including technology and analytics

Implementing more transparent and efficient TPM processes, supported by strong technology and analytics provides a significant increase in predictive accuracy, higher promotion order fill rates, and greater retailer satisfaction and cooperation. Cost to serve goes down; revenue increases.

However, such transformation is not an overnight journey and is best approached by looking at the overall business process and related operations, not just the technology component. The creation of a solid operating model, likely leveraging the scale and specialized operating skills of shared services, outsourcing, or more mature Global Business Service (GBS), can be a foundational element to a successful TPM. While some parts of the process must stay close to the business, the scalability, cost effectiveness and predictability of advanced “industrialized” operations as well as the ability of respective Global Process Owners to redesign and manage an end-to-end process can constitute a significant asset.

Only then can the enterprise reap the very compelling ROI achievable with the right TPM tools, backed by effective processes and analytics that drive more accurate forecasting, highly targeted promotions, and increased sales.
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