

Trade Promotion Management:
WHY 'CRASH DIETS' DON'T WORK



BY LEE DELANEY & JOHN BLASBERG
PARTNERS, BAIN & COMPANY

Most of us know we should eat better, exercise more and probably lose some weight. But how many of us actually do all these things? Similarly, everyone knows that marketing spend represents an enormous cost for manufacturers. CPG executives groan that they don't get their full return on investment from it. Specifically, they realize that the effectiveness of the millions of dollars they spend on trade promotions could be increased dramatically — and, not unlike waist watchers who purchase bathroom scales, many have taken strides to pinpoint the problem and acquire tools that measure ROI. *But what ongoing actions do they take to ensure lasting success?*

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In our experience, these "one-off" approaches just don't work over the long haul.

■ **MOST CPG COMPANIES EXAMINE THEIR TRADE PROGRAMS EVERY THREE TO FIVE YEARS.** Yet time and again, these sporadic efforts fail to produce any kind of lasting result. Companies continue to see little return on as much as 60 percent of their trade payments.

Why do companies still throw all that trade money away, despite their best intentions? In our experience, it's because they take a one-off approach that just doesn't work over the long haul.

Most firms try to fix trade spending with isolated, one-time initiatives. Thinking they've solved the problem, they relax their vigilance, allowing the fat to creep back on. They fail to create a rigorous, *ongoing* process that will hold the line by constantly measuring, monitoring and improving efficiency and effectiveness.

Given that trade spending is one of the biggest costs on the P&L for consumer goods firms, representing 10 to 20 percent of sales, that can be a deadly oversight. Companies would never neglect other major costs, like manufacturing, by examining them only once every three to five years.

It makes absolutely no sense to approach trade costs so episodically, either. It's like trying to trim down by going on a crash diet for just a few weeks. What you really need is a regular regimen of well-balanced meals and vigorous exercise.

THE CASE OF ONE COMPANY WE WORKED WITH, WHICH WE'LL CALL GOOD FOOD, IS TYPICAL. Good Food had attacked its trade spending problem with a number of individual initiatives over the years. Yet when it examined its promotions recently, it discovered that fully one-third not only produced no sales increase but were actually damaging to the company. They simply made retailers stock up on goods—

without passing any savings to consumers.

And the downside didn't end at eroded margins: the promotions also wreaked havoc on Good Food's supply chain, by creating artificial peaks and valleys in demand. By putting an end to those promotions, the company was able to cut its trade spending by five percent, with no loss of share, and eliminate its supply chain headaches.

To get the highest returns, companies need to wire their trade programs to drive out such inefficiencies on an *ongoing* basis, and *in a way that lasts*. That requires them to apply critical thinking on four key fronts: **tying trade strategy tightly to corporate strategy; employing in-store activities that generate the highest impact; investing proportionately in retail allies that matter; and building the right processes, tools and training needed for continual, long-term improvements.**

Companies that take the right approach in these four areas can increase their trade returns by 10 to 15 points, according to Bain's analysis.

Let's take a closer look at each of these fronts:

■ *Link the trade regimen to the corporate strategy.*

MANY COMPANIES SPREAD TRADE DOLLARS TOO DEMOCRATICALLY, SPENDING EVENLY ON ALL BRANDS. They need to tie their programs to their corporate strategy and narrow their focus to products with the highest trade returns and greatest growth prospects.

To determine which brands to invest in, executives must look not only at a product's market share but also at the category it competes in. Some categories, for instance, in staples, just don't respond to promotions at all, as Good Food realized. Others, like impulse buys, get a large lift in consumption



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from promotions.

Whether products in a category are mostly premium or mostly value brands also matters. Brands with high market share in premium categories generally merit high investment, whereas brands with low market share in value categories tend to be dead ends.

SLIMMING DOWN AND FOCUSING ITS TRADE PROGRAMS HELPED INCREASE RETURNS AT A COMPANY WE'LL CALL SNACK MAKER. It was outperforming its closest competitor on promotions by 50 percent but getting lower sales. A primary reason? Snack Maker had hundreds of tiny trade programs. Not only did retailers struggle to navigate all that complexity, but they mistakenly perceived the company to be spending far less, so they gave competitors more favorable display and ad placements.

To correct the problem, Snack Maker slashed its number of trade programs by a staggering 90 percent and redirected spending toward brands with the highest potential — and away from dead-end brands.

The result: Prime in-store activity jumped 10 percent and ROI shot up 15 percent.

■ *Increase trade fitness by pinpointing where, when and how your efforts will get maximum results.*

WINNING MANUFACTURERS RIGOROUSLY DRILL DOWN INTO THEIR DATA to identify the highest-impact trade activities, then combine them in coordinated programs that maximize returns.

They quantify how control of critical real estate, like display stands at checkouts and at the end of aisles, lifts sales of each brand; and how different price points impact sales and profits; and they determine

Manufacturers need to realize that their trade efforts may sometimes interfere with retailers' own goals — to increase profits and overall retail market share.

INEFFECTIVE PROMOTIONS AND TRADE PROGRAMS ARE A PROBLEM FOR RETAILERS, JUST AS THEY ARE FOR THEIR SUPPLIERS. And while manufacturers must make rigorous decisions about how to get the most out of promotions, retailers have different goals for them, and struggle with their own unique set of challenges.

Manufacturer companies that look at promotions through the eyes of their retail partners and work to align their mutual interests can increase their chances of trade success.

Today retailers face perplexing strategic choices. Confronted with the growing dominance of Wal-Mart, should they compete on a similar "every day low-price" strategy, differentiate themselves by targeting the market's high end, or take a hybrid approach?

Consumer goods makers need to understand which strategies retailers are pursuing and match their trade approach to support them.

For instance, with chains striving to project a premium-quality image, manufacturers may find that instead of focusing on flyer discounts, it's more appropriate to provide retailers with detailed shopper insights or in-store marketing efforts that incorporate product demonstrations.

Manufacturers also need to realize that their trade efforts may interfere with retailers' own trade goals — increasing their profits and overall retail market share.

WHEN WE CONDUCTED A DETAILED REVIEW OF PROMOTIONS FOR ONE US GROCERY CHAIN, we saw that, while one national brand's trade program boosted its sales 30 percent and its profits 15 percent, it actually reduced category profitability for the retailer 25 percent.

That's because the promotion cut into sales and profits of the chain's private label and other national brands, rather than generating incremental sales and profits for both the manufacturer and the retailer.

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Fitness is an ongoing process. *The sheer magnitude of trade promotion demands a level of intensity and vigilance ... well beyond a review every three to five years. To stop throwing away trade dollars, you need to **bring long-term discipline to the way you organize and execute your trade programs.***

the optimal frequency for promotions.

They orchestrate these activities carefully into a calendar that takes maximum advantage of seasonal sales peaks for each brand, avoids channel loading during lulls, and steers clear of running promotions too long.

HAVING IDENTIFIED THE HIGHEST RETURN ACTIVITIES, SMART SPENDERS REWARD RETAILERS for delivering on them.

A classic case of this took place in a product category sold in the front end of stores, where garnering shelf space is critical. When a premium manufacturer began to lose share to discount brands, it began providing incentives to convenience stores and other retailers for giving its products more prime display space (eye level, behind the counter), and reversed its market slide.

■ *Get the right retailers on your team.*

EVERY COMPANY KNOWS THAT 800-POUND RETAILERS MATTER, a whole lot. But one of your critical customers could just as well be a drug chain or even a local chain.

Successful trade programs home in on the retailers that offer the best volume, profits and potential for future growth — and are willing to work with the company on improving results of trade programs.

Best-in-class trade spenders go a step further, and work to win retailers' enthusiasm by trying to gear promotions to help retailers achieve their own trade goals.

This can be tricky, but a good first step is to incorporate the retail perspective into your trade planning. (See sidebar, "A Retailer's View.")

WHEN SNACK MAKER LOOKED CLOSELY, IT SAW LITTLE CONSISTENCY between the level of trade support it gave retailers and their importance or their effectiveness in applying the funds.

Realizing it was investing considerably less in large, growing retailers than in smaller chains, for instance, Snack Maker reallocated spending more strategically. It further improved results by employing a more advanced tactic: **categorizing retailers into four pay-for-performance tiers, based on how well they delivered on the activities with the best economics for Snack Maker.**

■ *Remember you're running a marathon, not a sprint.*

TO MAKE THEIR PROGRAMS BEST-IN-CLASS, COMPANIES NEED TO BUILD AN ONGOING PROCESS for improvement. They must adopt a mind-set similar to the one GE takes to instill excellence among its managers. GE didn't become a world-beating company by weeding out the lowest-performing 10 percent of its workforce once every three to five years. It constantly appraises the staff and identifies underperformers that must shape up or leave.

This is just one of the ways GE makes sure its organization doesn't become satisfied with the status quo, but always reaches for greater achievement.

LIKewise, GREAT CONSUMER PRODUCTS COMPANIES NEED TO CHALLENGE THEMSELVES to keep raising the level of their game in trade promotions. They can do that by structuring their organizations to make effective promotional decisions quickly, building the tools to constantly push promotional effectiveness higher, and providing the training employees need to make improvements stick.

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Consider one consumer goods company we worked with. Formed by the merger of five entities, it had five separate trade programs with different strategies and no clear process for decision making. Sales reps were cutting deals on their own, with no direction from the center. Not surprisingly, the company had inconsistent results and a runaway trade budget.

MELDING THE BEST PRACTICES OF ALL FIVE PROGRAMS, THE COMPANY CREATED ONE NEW SYSTEM. It outlined clear decision roles, giving the marketing VPs responsibility for brand and category strategy and the promotional calendar, and the sales reps the authority over individual stores' plans. To monitor planning and compliance, the firm built customer dashboards and promotional tracking tools and trained the sales reps thoroughly in their use.

Finally, to make sure the sales reps stayed on track over the long haul, the company also tied their compensation to customer profitability.

Keep working it ...

THE REALITY IS, LASTING SUCCESS DOESN'T COME FROM A SINGLE INITIATIVE IN TRADE SPENDING. The sheer magnitude of trade spending demands a level of intensity and vigilance that goes well beyond a review every three to five years. To stop throwing away trade dollars, consumer products firms need to bring long-term discipline to the way they organize and execute their trade programs, and select retailer partners.

By focusing on trade promotion's four key fronts, continually improving there, and not only analyzing the past but planning for the future, they can achieve true gains in effectiveness and efficiency, and keep the fat off. ■

Sophisticated retailers understand that trade promotions have upsides — volume increases, sales of complementary products, improved traffic and consumer perceptions — as well as downsides.

Those downsides include lower margins, cannibalization of sales of other products, and "pantry loading" by consumers, as well as supply chain inefficiencies, increased demands on in-store resources and higher back-office promotional-management costs.

Some retailers may quantify both upsides and downsides to arrive at a true picture of whether promotions are a boon to profits or a drag on them.

Winning consumer products companies recognize what retailers want: *promotions that target categories that can truly drive incremental traffic into their stores, focus on other activities that lift overall store profitability, and are easy to administer.* ■



One side shouldn't get all the benefits. Sophisticated retailers know trade promotion has downsides as well as upsides; smart manufacturers recognize that promotions must serve the retailer's needs as well as their own.

Lee Delaney, a partner in Bain & Company's Boston office, is one of the firm's experts in customer marketing for consumer product companies. John Blasberg is a partner in the Boston office and head of Bain's Consumer Products Practice in North America.