TRENDS, MYTHS, AND REALITIES IN INTEGRATED TRADE PLANNING

BY CHRIS RICE, VP OF SALES & MARKETING, NORTH AMERICA AT EXCEEDRA INC.

Are You Stuck in the TPM Matrix?

Remember the 1999 blockbuster film "The Matrix?" Keanu Reeves' character is shown the truth about the world and learns that everything he once perceived as real, was not. After receiving a glance at this new reality, he chooses not to go back and takes the necessary steps to move forward and accept the truths of the real world.

The CPG world has changed, yet from a trade planning perspective, most are stuck in the "TPM Matrix" following the same approach to seek improvement in trade effectiveness. This white paper will explore some of the myths and realities in integrated trade planning that have impacted the true benefits surrounding the typical approach to improving trade. Once revealed, you too will seek a new approach and change perspectives on integrated trade planning to reap greater benefits for your company.

Advent of TPM

Since the time when Apple®, IBM®, and Microsoft® changed the business world with inventions of the personal computer, Lotus 123 spreadsheet, and the Windows® operating system, CPG companies have more or less been using the same process to manage funds spent with the retail trade. This process is known as "Plan-Execute-Pay-Analyze," or some variation thereof. As the packaged software industry grew, so too did the desire to have a better program for managing trade spend. (Figure 1) This drive for improvement typically came from the finance organization and led many large companies to build software tools in-house.

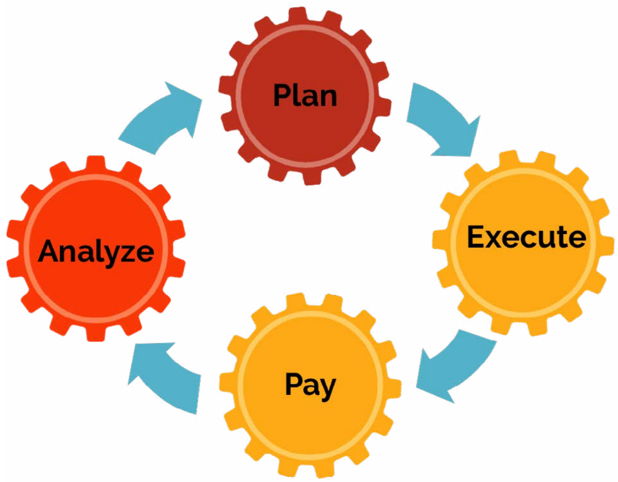

FIGURE 1: TRADE PLANNING PROCESS

Eventually, a few software companies entered the market with "a better mouse trap" for Trade Promotion Management (TPM). The original design behind these TPM systems were driven by the finance department as they sought better visibility and control over trade funds in the planning process. The first mission was to capture the promotions to provide visibility and then enable the payments/deduction management. The transactional side of this process is still at the core of what TPM systems provide today. However, this financial orientation tends to make TPM tools very cumbersome for sales teams and not suited to support sales planning.

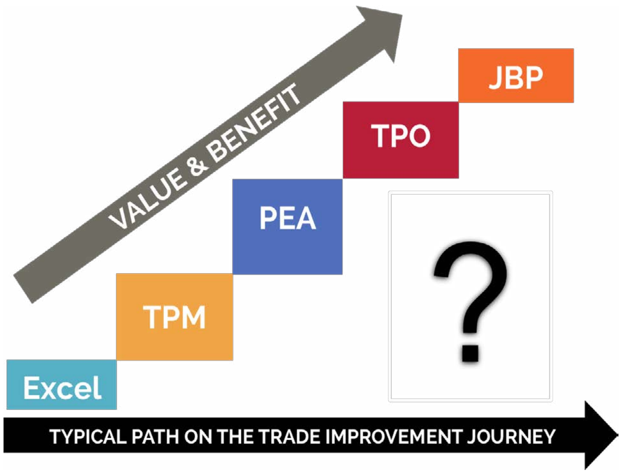

FIGURE 2: TRADE CAPABILITIES JOURNEY

Today's Trade Improvement Journey

When you consider the typical journey roadmap for trade improvement, it follows an industry accepted approach to address the desired capabilities to improve effectiveness and efficiency. CPG companies move from planning in Excel® to a TPM tool, then add Post Event Analysis (PEA), and then Trade Promotion Optimization (TPO) and so on. But something is missing. (Figure 2)

In an effort to fill in the missing pieces of the journey towards trade improvement, it's important to address four industry myths that commonly steer CPG companies off course.

EXCEEDRA

MYTH # 1: "IF YOU HAVE TRADE ISSUES, YOU SHOULD BUY A NEW TPM TOOL AS IT WILL SOLVE TRADE EFFECTIVENESS REQUIREMENTS."

According to Gartner's "2014 Vendor Panorama for Trade Promotion Management in Consumer Goods," "TPM solutions are becoming largely commoditized, with solutions largely covering functional requirements and providing little differentiation." The report further states that "many companies are on their second and third implementations attempting to get TPM right."

Reality of the Trade Planning Process Today

The basic trade planning process, "Plan-Execute-Pay-Analyze," hasn't really changed, but the WHAT and the HOW have changed. Today, there is more data, more detail and greater expectations from retailers, all of which leaves less time for actual planning. Retailers have become increasingly more sophisticated, which has caused an evolution of programs, including shopper marketing and digital marketing, making it even harder to understand a true return on trade investment. This has also driven the desire to enter into Joint Business Planning arrangements with some of the larger, more strategic retailers and manufacturers. With all the changes that have taken place, most TPM systems have failed to keep up.

The reality is most TPM systems are built to handle elements of the "Pay" and "Execute" parts of the process by communicating the customer planned promotions from the field to headquarters and by managing the payments and settlement process after promotions are complete. But with the growth and evolution of syndicated and retailer POS data, so too has the planning process. Customer planners have been forced to pull data from multiple sources and consolidate into spreadsheets because the TPM systems are designed for shipment planning. The "Plan" part of the process for the largest customers ends up being managed in Excel spreadsheets with a variety of non-standardized approaches. While the "Analyze" step is supported by a variety of reporting systems such as a data warehouse, Demand Signal Repository or data is dumped into spreadsheets for more manipulation..

Today, many companies have spent millions of dollars on TPM systems that still don't address the critical customer business planning need. Executives see large investments being made in TPM, yet don't understand why problems aren't being solved. Because of the complexity and the critical nature of trade, this makes it hard for most companies to make the changes necessary to improve the planning process. There are many barriers that get in the way, including the obvious human nature resistance to change and the "sunk cost" invested in TPM. The planning challenges have started to become more evident as companies seek to improve the ever growing trade line through more advanced capabilities. (Figure 3)

TOP FIVE REASONS TO TRANSFORM TRADE PROMOTION STRATEGIES

This list is indicative of the over promise and under delivery of TPM over the years and speaks to the need for an integrated planning process.

1. Improvement to the "Top Line"
2. Enhance Visibility
3. Better Collaboration between Manufacturers & Retailers
4. Better Data Management
5. Tighter Integration with Related Functions & Departments

Source: Aberdeen Group

FIGURE 3: TRANSFORM TPM STRATEGIES

Action Steps on TPM

If your company is reviewing the trade promotion management process, consider the following actions steps:

1. If your current TPM system does not provide visibility and control into the funds management and settlement process, then it's time to replace it.
   - » Start by mapping your current and desired processes across all departments including finance, marketing and demand planning
   - » Take the opportunity to address the customer planning needs of sales to eliminate all off-line sales planning

2. If your TPM system is sufficient for funds management and settlement;
   - » Consider an integrated planning front end to address customer planning
   - » Ensure you understand the customer planning requirements from your most strategic customers

MYTH # 2: "THE BEST WAY TO IMPROVE TRADE EFFECTIVENESS IS THROUGH POST EVENT ANALYSIS (PEA), WHICH REQUIRES YOU TO BUY A REPORTING TOOL OR A CONSULTING PROJECT."

After TPM is in place, the next logical step on the path to trade improvement is Post Event Analysis. According to Strategy& (formerly Booz & Company), when implementing a Post Event Analysis capability "the gains can be significant and can increase the return on investment for their trade spending by as much as 10 percent." For most CPG companies, the size of the prize here is significant for gaining a better understanding of historical performance. However, the Strategy& report also notes "a large percentage of companies have no analytical function whatsoever, others apply a manual approach, building unique spreadsheets for individual events, which restricts their analysis to a handful of promotions and a minority of overall trade spending."

Why Aren't More Companies Doing this Today?

The reality is this that there isn't an off the shelf Post Event Analysis tool available. The common approach is to buy a reporting tool and build the PEA functionality or hire a consulting organization to provide a study. The reason more companies aren't doing PEA is the complexity that is created when the TPM tool is an execution system and customer planning in done in Excel.

DEFINITION OF POST EVENT ANALYSIS (PEA)

- A "Rear View Mirror" look at what happened on promotions
- It compares planned events to actual results
- It should provide insight into what worked and what didn't

This causes a number of challenges when trying to deploy PEA. Often, the data is from different sources. For example, the customer planning in Excel is in consumption (syndicated or POS data) whereas TPM system plans are in shipments. This gets even more complex when customer planners are required to figure out the shipping case packs, especially when multiple options are available. Then there is the classic process gap issue where changes to promotions don't get updated in the TPM system on a consistent and on-going basis after the annual plan is communicated.

The result is misaligned dates between the TPM system and the actual results, not to mention the errand plans that are communicated to demand planning. This becomes very difficult to manage in a reporting tool or within consulting projects that end up excluding part of the data set due to such misalignments.

Some companies have tried to implement PEA from a headquarter team or Center of Excellence, which also limits the usefulness and success unless the sales team that set up the promotions is involved in the process. After all, the sales team has the most knowledge of what happens with each account and can apply these learnings on future promotions.

4 Key Considerations for Post Event Analysis

1. INTEGRATED PROCESS

- Improve the overall process including rules, controls, and reporting. For example, if an event changes, it must be changed in the TPM system before the event runs.
- PEA should be integrated into the customer planning process to ensure learning is reflected in future plans and promotions

2. COMMON BASELINE DEFINITION

- Strive for alignment between sales, marketing and demand planning to develop and agree on a common baseline definition
- Without a common definition across customers and the organization, it becomes very challenging to use the results at any aggregate level or to drive learning across departments. You need a base/incremental view to understand your ROI.

3. DATA ALIGNMENT & ON-GOING DATA MANAGEMENT

- This is not a one-time project, but on-going process that addresses data changes & anomalies that will occur with syndicated restatements, changing hierarchies, or one time occurrences such as a winter storm or hurricane that severely impacts a region. These anomalies must be managed and accounted for in the PEA analysis otherwise it will skew the analysis
- Assign a data "guru" role within your organization to own and manage the data sources

4. DON'T FORGET THE "BIG PICTURE" OR TOTAL CUSTOMER PLAN

- Some PEA capabilities focus on single event analysis, which offers relative ROI perspective but does not account for the collection of events running at an account.
- The total customer plan should also be considered to understand the overall impact of all promotional activity on the P&L. Without the customer teams' insight and a view of the entire plan, the analysis can be misconstrued. For instance, the investment in a negative ROI event may have enabled additional positive ROI events that would get lost in a single event analysis.

Action Steps for Post Event Analysis

If you don't have a Post Event Analysis capability in place, the opportunity is too big to ignore. Consider the following:

1. Set up a program to address the 4 Key considerations for PEA
   » Integrated Process
   » Baseline Definition
   » Data Alignment & On-going Management
   » Don't forget the "Big Picture" customer total plan
2. Get started on the journey, look at your customer planning process first

MYTH # 3: "TRADE PROMOTION OPTIMIZATION (TPO) IS STILL A VISION AND WORTHWHILE, BUT YOU SHOULD WAIT UNTIL SOLUTIONS EVOLVE BEFORE INVESTING."

What is TPO? There are many views on this depending on your frame of reference or which part of the organization you belong. For some, it might be considered predictive pre-event scenario planning. For others, it's a constraint based optimization model that provides the "best promotion" option, and others may include Post Event Analysis as part of TPO. Organizationally, some may think of TPO as a headquarters capability to provide planning guidance and direction whereas others may think of it as a field sales capability within the customer team. At Exceedra, our perspective is that TPO is a capability that systematically enables sales to improve spending effectiveness year over year. The key to successfully embedding this capability into your process and organization is make sure you phase in the right level of sophistication in a measured approach to build user adoption.

Organizational Fit

As with any business process, one must crawl before they can walk or run; otherwise there will be a lack of adoption and efforts to drive success will fail. Some pockets of success have been realized from industry leaders investing in TPO in an effort to figure it out as they go. However, when planning is done in spreadsheets and TPM is the "shipments" book of record for promotions and trade, layering on a standalone decision support tool such as a TPO system becomes a very difficult proposition. (Figure 3) "Swivel Seat" tools which require plans to be re-entered from one tool into the TPM system are not sustainable. These solutions must be integrated, and must displace the planning work done in Excel to provide the simplification of the customer planning process.

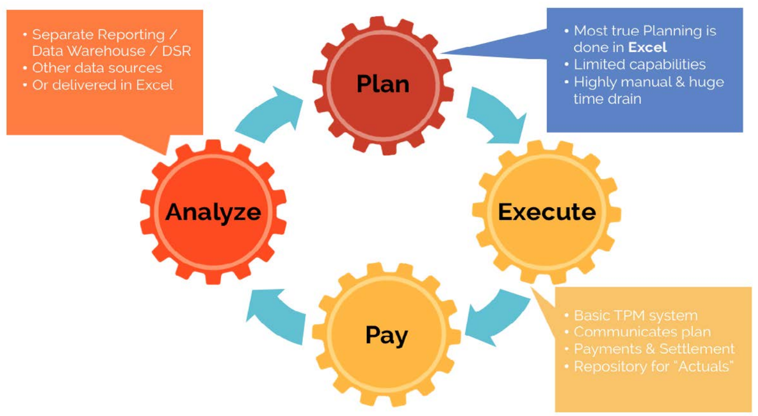

FIGURE 4: REALITY: TRADE PLANNING PROCESS

Additionally, science is necessary to drive good models and accuracy. But depending on the approach, it can make TPO very costly to maintain, which tends to limit the scope of where it is applied. Then there is an organizational consideration. That is to say, "is your sales team ready to embrace an analytical planning approach?" If the TPO solution is too sophisticated and a PHD in statistics is needed to understand the results, then it won't get used. When additional training and education will be required, then this should be approached in a well-designed program to ensure the change management aspects are considered and managed appropriately for your organization.

Action Steps for TPO

TPO is real and the size of the prize is BIG. Don't over complicate the process at the beginning or allow the science behind the system to overwhelm users, otherwise you will risk adoption issues and failure. Integration can be challenging, but it's not impossible if you mirror the rules and validations used in TPM.

Here are additional steps to consider:

1. Create a roadmap for your TPO journey
2. Embrace the "crawl, walk, run" strategy
3. Assess your organization skills and capabilities
4. Don't underestimate the data management and utilize a guru, if needed
5. Start simple and add complexity when the sales team is ready
6. Include retailer metrics; this is a must have
7. Simplify the process for sales by integrating into TPM/Planning/PEA

MYTH # 4: "IF YOUR DEMAND FORECAST IS NOT ACCURATE AND IS CAUSING FULFILLMENT AND INVENTORY ISSUES, THEN SOMETHING IS WRONG WITH YOUR SUPPLY CHAIN MANAGEMENT/DEMAND PLANNING TOOLS AND THEY SHOULD BE REPLACED TO FIX THE ISSUE."

According to a Forbes articles written by Supply Chain expert Lora Cecere, many large CPG companies have invested in SAP and JDA supply chain planning software, and don't use it. Instead, the planning process is being done in spreadsheets. The article cites supply chain/demand planning failures are due to the fact that it "doesn't meet the line of business needs for optimization and visualization."

In reviewing the reality of today's overall value chain, it is the promotional spikes that cause the volatility in the demand plan. For example, a buyer calls during the promotional period and requests the status of his product shipment. The supply chain goes to sales to find out why there is no visibility into the actual sales plan and promotional lift. This occurs because the information is stored in an Excel file on the customer teams' laptop.

Here is the major issue: there is no systematic way to get a sales plan that was created in Excel into the demand planning tools. Many industry leaders are now assigning demand planning experts to top accounts, which is a great move forward, but the missing link is the integration of an improved sales plan.

Action Steps for Supply Chain/Demand Planning

- Consider the linkage and visibility between Demand Planning and customer sales planning
- Do you have the right capabilities to share the most recent sales forecast?
- Invest in a planning foundation that you can build on, instead of separate solutions
- Focus on Sales Planning improvements first
- If your Sales Planning process is off-line in spreadsheets, rethink that process to improve the input into the supply chain and S&OP process.

So What Is Missing? The Integrated Planning Foundation

The value that comes with all the initiatives mentioned in this whitepaper are significantly reduced when individually deployed in a series of disparate and standalone systems. Even when integrated, the complexity introduced by separate solutions from multiple vendors adds to the expense, complicates user navigation between systems, and raises the risk of failure. The time to benefit is much longer given this added complexity. Improving the sales planning process will improve all the future steps in the journey from PEA and TPO to Joint Business Planning, and ultimately the S&OP process. (Figure 5)

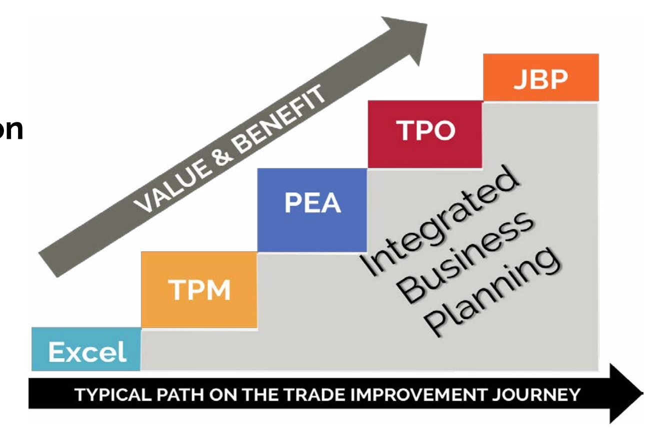

FIGURE 5: TRADE CAPABILITIES JOURNEY

Integrated Planning is as much about integrated processes across sales, finance, marketing and demand planning as it is about the system integration. No system will cure the problems created by bad process design. With any major system upgrade or implementation, the analysis phases should include a review of the "As-Is" process and the impact of process change on the organization. This takes a comprehensive approach to coordinate and manage, or in other words, a roadmap.

Don't Forget the Roadmap

Every journey needs a good roadmap. Below is an example roadmap that considers all aspects of a best practice program approach including the people, process, and technology. (Figure 6) There are four fundamental principles when preparing the roadmap:

1. It all starts with a strategy and vision
   - » The strategy and vision are key to the foundation. It is not necessary to have all aspects of future needs mapped out, but it is important to have a high level plan.
2. Phased approach
   - » A "crawl, walk, run" approach is generally a better plan to ensure value is delivered early and you don't bite off too much and lose the user adoption game.
3. Consider the "People, Process, and Technology" in your changing world
4. Find the right partner to help your organization with the journey
   - » This may include a solution provider and consulting company

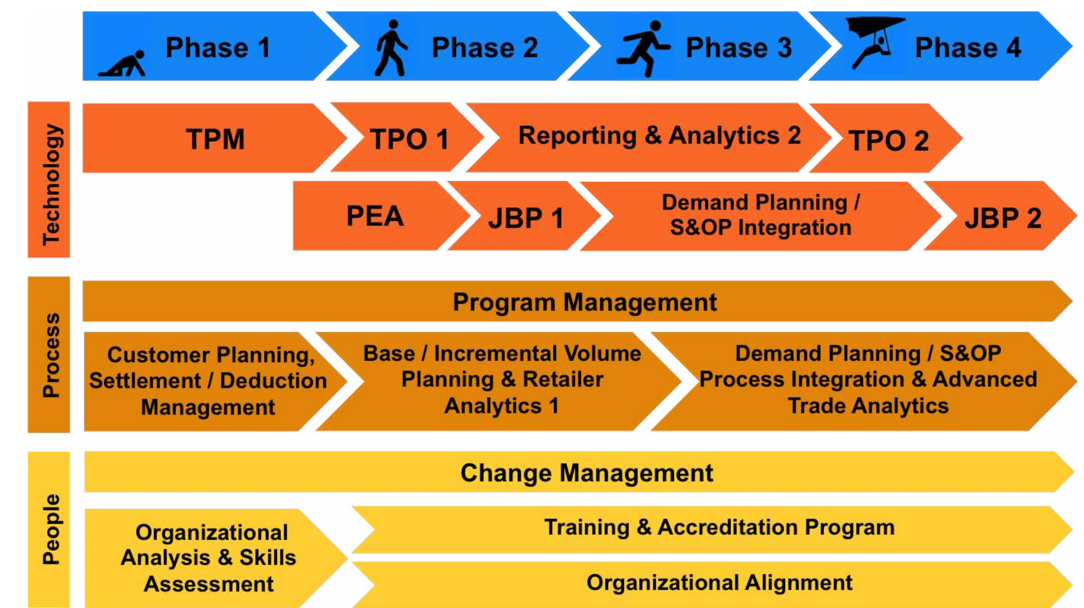

FIGURE 6: EVERYONE NEEDS A GOOD ROADMAP

Conclusion

The customer planning world has changed and will continue to evolve. When considering ways to improve trade spend effectiveness, break free from the "TPM Matrix" and get to the heart of matter: the customer planning process. Capturing a better plan upfront from the sales team will improve the analytics and downstream data flow into demand planning and the S&OP process. The good news is there is a software solution that was created to enable this journey.

About Exceedra

At Exceedra, our mission is to provide Integrated Business Planning Solutions for Consumer Goods companies across the globe to help our clients make better business decisions managing their trade budget. Our market leading solutions enable greater control and return on investment for our clients and our service has been recognized as a distinct advantage.

Our solutions support business in the area of Trade Promotions Management and Optimization, Sales and Operational Planning, Integrated Commercial Planning, and can be deployed in the Cloud or on premise. We are a global company, based in the UK, with offices in the US and in Australia.

For more information, please visit our website at www.exceedra.com.

Sources:
Gartner: 2014 Vendor Panorama for Trade Promotion Management in Consumer Goods
The Aberdeen Group: Top Five Reasons to Transform Trade Promotion Strategies
Strategy&: Boosting the Bottom Line through improved trade promotion effectiveness
Lora Cecere: Bumps, Cracks, and Opportunities, Forbes 5/20/2104

CONTACT US
One Gateway Center
Suite 2600
Newark, New Jersey 07102
United States
Phone: +1 (201) 299 2500
sales@exceedra.com

EXCEEDRA