VIEW POINT

ENSURING A SMOOTH RIDE IN THE TRADE PROMOTIONS MANAGEMENT JOURNEY

Abstract

The positive impact of well-managed and well-executed promotions on revenue is no secret. However, while businesses focus on maximizing effectiveness of promotions, the problem of complex trade promotion processes, with its fragmented data sources and fuzzy responsibility matrixes has not seen standardized solutions yet.

To respond to these challenges, leading CPG/ FMCG organizations are closely analyzing their processes and looking for innovative solutions to improve metrics beyond effectiveness. This paper summarizes a few strategies that have been adopted by organizations in their trade promotion process transformation journey.

Infosys®
Navigate your next

Necessity of trade promotions

Historically, companies have used their accounting systems and spreadsheets to plan trade promotions. As the complexity of trade increased, software solutions were required to address various issues. These helped cater to the organizations' needs across various industries, especially including CPG and FMCG. Trade promotion management (TPM) is used as a marketing technique aimed at increasing demand for products based on special pricing, display fixtures, value-added bonuses, no-obligation gifts, and more.

With the increase in complex demands and complex supply chain, coupled with the changes in the trade complexity, it becomes imperative to ensure to have smoothly managed trade promotions – as these yield in the below:

- Increasing the order size
- Speeding up order-to-cash cycles
- Improving profitability and ROI
- Enhancing vendor loyalty and relationships

Changes in trade promotions operations

Trade promotions form the 2nd largest expenditure for CPG businesses, after cost of goods sold (COGS), to the tune of 25% of their revenue and totaling more than $1 trillion on trade annually[1]. It's no surprise then, that TPM forms an important component of an organization's business strategy.

Below are some of the established truths and emerging industry trends that are driving businesses to relook at their TPM approach, in order to make their operations friction-free and drive a higher ROI.

a. Non-standard TPM processes

Despite being a core and vital CPG process, no standard taxonomy exists for TPM. For example, some companies may choose to manage trade promotion payments against separate invoices from their customers, making this a finance activity. On the other hand, others may choose to offer these as deductions on their own invoices, making this a sales activity. Even within the same organization, different geographies may choose to execute their processes differently. This increases the process diversity, making it difficult and costlier to assess their TPM processes and apply solutions.

b. Multiple process interfaces and uncertain delineation of responsibility

It would be oversimplification to think that TPM lies within the realms of a single function. It has interfaces with almost all order-to-cash processes, and often the roles and responsibilities of different functions are not spelt out clearly. As a result, the right resources are not aligned to the right process, which leads to sub-optimal execution. For instance, when a leading confectionary manufacturer realized that their promotion reconciliation activities were entrusted to Sales rather than Finance, resulting in Key Account Managers spending 15-20% of their precious time spent on value-neutral, non-customer activities.

c. Absence of a unified view of TPM data across a fragmented IT landscape

While a small galaxy of tools is available in the market to support TPM processes, not one of these can boast of being a comprehensive solution. Some solutions suffer from a weak analytics capability, others are deficient in their ability to interface adequately with the organization ERP, while others still do not have a robust settlement module. As a result, businesses have started to adopt specialist bolt-on tools to supplement their primary TPM platform. This is a solution which comes with its own problem – fragmentation of process data across multiple tools, which impedes an organization's ability to extract meaningful insights about their operations.

d. Over-reliance on ROI as the only metric

While ROI or trade promotion effectiveness (TPE), is a critical metric, it is also very difficult to measure and even more difficult to improve with traditional analytics tools. In this backdrop, organizations which focus on TPE to the exclusion of all other metrics, lose out on important levers to optimize their trade promotion spend such as people costs and technology costs.

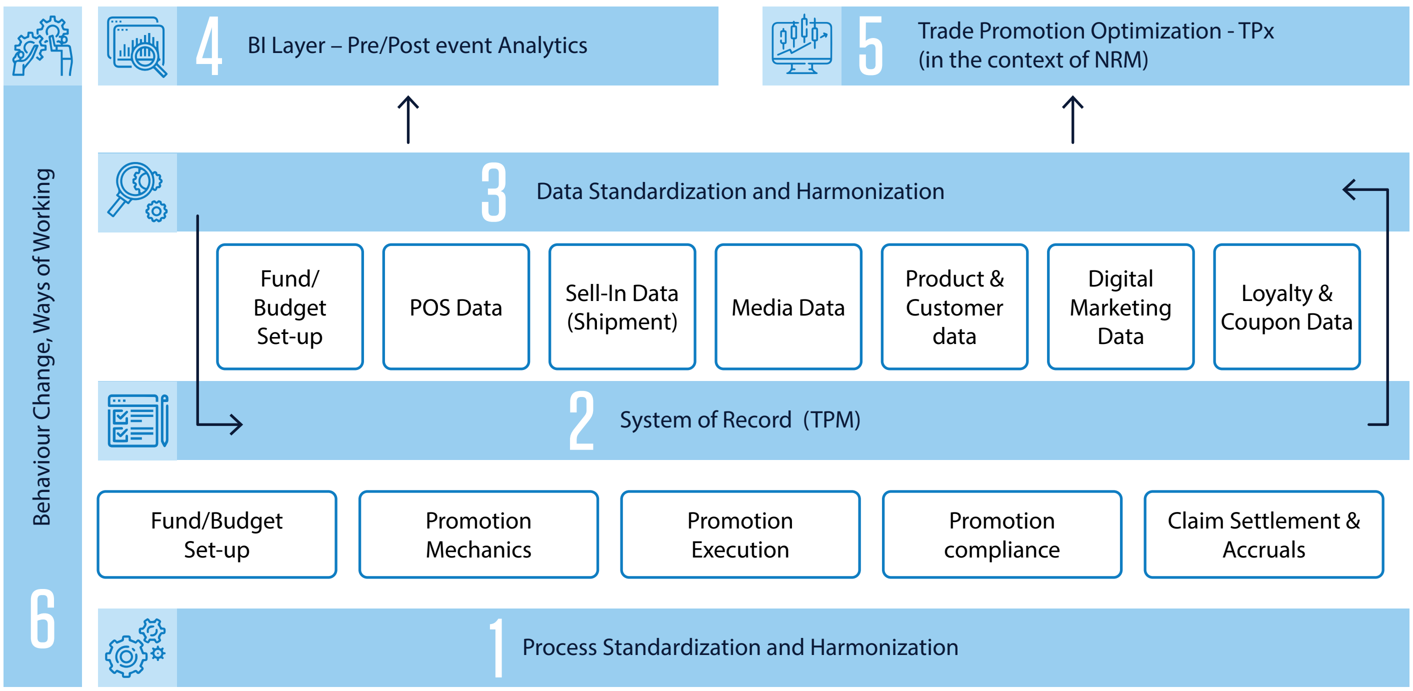
[1] https://home.kpmg/content/dam/kpmg/us/pdf/2017/08/winningtheshelfwarRGM.pdf

Strategies for a successful trade promotion operation

While the notion of running a successful trade promotion operation is simple enough, its implementation is anything but. Many CPG organizations are implementing successful trade promotion strategies and few of them are summarized below:

a. Cultivate an end-to-end view of trade promotions

The first step to running efficient operations is to develop a holistic view of the trade promotions operations. This includes juxtaposing the processes over a standard process taxonomy, identifying the different process and technology elements and their interfaces, governing metrics and associated master and transactional data, and establishing a clear set of roles and responsibilities.



b. Measure promotions' performance accurately and timely

Promotions' performance should be benchmarked in an all-round manner – against themselves, past promotions, and peer promotions. They should be measured on metrics like total cost of promotion management, product availability, percentage of time spent by Key Account Managers on promotion related activities, cannibalization due to new products, and cycle times of promotion creation, managing deductions, and dispute resolution. Periodic and accurate measurement of performance sets the ground for modern analytical tools and techniques to establish correlation and propose strategies to optimize performance.

c. Don't reinvent the wheel

The best organizations know how to crush the discovery phase of process transformation programs. They are acutely aware of their processes, and can adapt the know-how provided by established best practices and benchmarking reports to the peculiarities of their own operations. Having the right consultant partners by your side can accelerate this process and get your organization quicker to the phase of benefit realization.

The way forward

KPMG estimates around 67% of the promotions don't even break even. With such a huge investment, CPG companies expect trade promotion management as a critical business process to not just make every promotion yield positive return, but to add enhanced value to their organization as well.

Authors

Anshuman Shree Kantha

Senior Industry Principal, Digital Transformation Services, Infosys BPM

Anshuman is an accomplished business and digital transformation leader with 20 years of experience in driving operational efficiencies, process effectiveness, and end-user experience in the core business processes for global corporations. He has a strong track record of developing and delivering realizable value through operations and digital transformation programs, process re-engineering, operational improvements, supply chain optimization, and strategy development in the key markets of North America, Europe, and Asia Pacific across multiple industries.

Gururaj Sagar

Principal Consultant, Digital Transformation Services, InfosysBPM

Gururaj is a seasoned Digital Transformation Consultant with proven ability to translate transformation objectives into measurable outcomes. With around 20+ years of rich experience, Gururaj has been helping customers to continuously achieve strategic goals, business growth, profitability, and competitive edge through digital transformation, process/ operational excellence, cost reengineering, etc.

Gururaj is a customer-focused professional with rich program management skill, who can solve business problems in the BPM industry resulting in high impact customer/ organization value generation. He also has solid experience in digital transformation, shared service advisory, optimizing and automating business processes, benchmarking business metrics, defining target operating model, process management, to name few.