Winning More with Trade Promotions

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The pressure for consumer packaged goods companies to improve ROI when it comes to trade spend has become immense. One thing is for certain: CPGs won't get back to winning with trade promotions if, year on year, they are simply repeating old plans. Every individual investment needs to be reliably assessed. At the time of planning, CPGs need to know whether they're choosing the winning promotion out of all possibilities. The volume and financial impact of each promotion in the plan needs to be properly understood. Leading companies have broken out of the year-on-year repeat of trade promotion strategy and plans. These are the three ways they are doing things differently:

1 Look forward, not backward

Traditionally, organizations evaluate the past in monthly or quarterly cycles, trying to derive rules to apply to promotion plans once per period. But by then, many promotions have already been offered to retailers, making it hard to effectuate change; similarly, ad hoc negotiations often escape these rules.

Companies that harness the full power of their data are instead empowered to look forward by using insights and prediction models during the actual promotion proposal and negotiating process. The days of sticking fast to an annual plan devised perhaps 18 months before are long gone. CPG companies that win more are the ones able to plan, deliver and adjust trade promotions much more quickly, so that they're suitably responsive to what is currently trending with consumers.

2 Take the integrated view of profitability and reliably explore alternatives

Winning promotions are the norm at CPGs that have transformed into process-led organizations aligned around end-to-end processes and making data-driven decisions based on a single version of the truth driven by customer metrics.

Before offering it to a retailer, the promotion needs to be evaluated on volume, revenue and profit impact for all stakeholders in the trade channel. A single version of the truth showing both manufacturer and retailer perspectives brings transparency and enables collaborative, win-win decision-making. For this to happen, different scenarios out of all possibilities need to be modelled and reliably compared in terms of volume, revenue and margin during the planning process, so there's certainty about what a winning promotion will be.

3 Trust the machine

Powered by solutions employing applied artificial intelligence and machine learning, leading CPGs have reliable ways of predicting scenarios and understanding ROI for each individual promotion during its planning. Developments in AI and ML have led to prediction models that outperform human estimations by 20% to 30% in forecast accuracy and can directly compare scenarios. This can be precisely translated into better promotions, more reliable expectations and significantly less work for account managers—who are then freed up to manage the exceptions instead of micro-managing everything.

We see CPGs planning their best promotions by trusting the machine to complete 80% of the traditional work. Thanks to AI, there is a new era dawning in trade promotions where the goal is to drive much-needed, sustainable company growth instead of providing inconsequential incremental lifts from time to time.