Consumer goods companies spend a significant proportion of their revenues on trade promotions, but returns on that investment can be disappointing. And while trade promotion management (TPM) systems help them to plan and control their activities more effectively, they may not be sufficient, in themselves, to close the gap between ambition and reality.
Six pillars for success

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Consumer brand leaders are therefore considering trade promotion optimization (TPO) solutions. These take data from the TPM system in order to conduct post-event analytics that will generate performance-enhancing insights. The aim is to get a clear view of volume components such as baseline, promotional uplifts and sales cannibalisation, enabling firms to improve the effectiveness and efficiency of their promotions, and to plan more accurately.

In other words, TPO and the analytics functionality it includes can help firms to hone their existing trade promotion activities and to optimize new promotions. It is an enticing prospect. In our view, a successful TPO is built on the following six pillars:

**Invest in training**
To ensure the business exploits TPO to the full, you will need to train those who will use it in both the how and why. Ideally, start with a proof-of-concept exercise to identify likely business scenarios where TPO is potentially valuable given the data available; then use these scenarios to train key users who will be able to share their learning with colleagues; finally, roll out the training to all other users.

Very often, businesses introducing TPO solutions invest in a short period of upfront training that provides users with guidance on how to use the new system. But it doesn't teach them how the system works – what past data inputs are flowing in and how the algorithms are applied to this data to generate forecasts. Without that sort of understanding, it will be difficult for users to trust the new system or embed it across the business. Training should therefore be ongoing, with key users developing a “community of practice” enabling colleagues to address issues as they come up.

**Avoid rubbish in-rubbish out**
Unless you properly assess the business’s trade promotion data, you won't know where you are starting from – and you will find it much harder to give any meaningful information to your TPO solution. Assessing the data (identifying what information you have access to and what is missing) is a crucial task, but is too often overlooked. The result can be that TPO solutions are fed inaccurate or incomplete data – and when rubbish comes out at the other end, people start to question the whole project.

The more data the business has – and the better its quality – the greater the benefits that TPO solutions will be able to deliver. Assess data by market, by product category and by account, based on customer and product requirements. Look for as many different data sources as possible, both internal and external – richer data, ranging from macro-economic inputs to weather information, will deliver greater insight than purely internal sell-in data.

**Test each model you work with**
Analytics modeling is an art as well as a science, with no single formula that will guarantee success. There will be differences by market and by industry; in some cases, there will be more (and better) data available than in others, and you may need to access third-party data. To get TPO solutions working effectively, it will be necessary to work with a set of models, automatically testing and retesting until the best fit is identified; the fine-tuning will then continue to maximise accuracy.

**Set ambitious but realistic targets and measure progress**
Set up your TPO solutions to achieve your business's specific goals and targets – don’t chase functionality for the sake of it. Your TPO activities should supplement and support your TPM processes, rather than operating in isolation. If you are not fully exploiting the potential of every aspect of a TPO solution straight away, so be it: the business may not be ready yet.

Measurement is a key part of the process. Measure what you're achieving today with existing TPM activities and then add in further gains as they’re generated by additional TPO activities. Results are bound to vary from company to company, and from account to account, but measuring progress carefully will help build the business case for moving to the next step. A shift from a 10% sales uplift to 20%, say, provides the case for exploring further functionality.

Moreover, without accurately measuring the return on investment of your activities, you can’t properly assess what’s working and what’s not. Given the right data, TPO systems can help consumer goods companies to decide which promotions should be repeated, which need to be adjusted and which should be junked. But that requires better performance measurement.
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