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Raising the ROI
of Trade Spending
*2010 Benchmark
ROI Survey Results*



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EXECUTIVE SUMMARY

In 2010, Booz & Company and leading in-store technology provider Quofore conducted a two-phase study of trade spending and in-store execution, and the technologies and processes that enable consumer products (CP) companies to improve their performance and ROI in the retail environment.

The initial phase of the study, which was focused on identifying the kinds of in-store technology investments that consumer products companies are making, was conducted in March 2010. It included the responses to an online survey of approximately 150 executives, representing almost 100 major CP companies, predominantly in the United States, and also in Europe and Asia. (The first-phase research report can be downloaded at tpe.booz.com.)

The second phase of the study, the Booz & Company–Quofore 2010 Benchmark ROI Survey, detailed in this report, was designed to determine whether and how CP companies are improving and ultimately optimizing their return on investment (ROI) on trade promotion events. This phase of the study was conducted in May 2010. Its results provide valuable insights into ROI practices and the in-store technologies that enable them among CP companies and the retailers they supply.

HIGHLIGHTS

The responses of decision makers in consumer products companies reveal the following:

- A large majority (83 percent) rank either out-of-stocks or trade promotion compliance as the most important factor affecting ROI.
- Sixty-two percent measure the ROI of in-store sales and merchandising activities.
- Of the companies that measure ROI, approximately three-quarters calculate the ROI of each promotional program or event.
- Only 8 percent think they have optimized their use of in-store technology; another 8 percent rate themselves as “effective,” and 29 percent regard themselves as “efficient.”
- Of the companies that plan to develop an ROI measurement capacity in the future, 36 percent plan to do so within the next 12 months, 45 percent in 12 to 24 months, and the remainder at some later date.

ROI IN CONSUMER PRODUCTS

The ability of CP companies to calculate, analyze, and improve the ROI associated with trade spending and in-store execution is critical to their success. Research indicates that trade spend is the second-largest expense in the CP sector, after cost of goods sold, and can consume as much as 20 percent of revenues.

In today’s fragile economy, the need to address these issues and improve ROI is becoming increasingly urgent for the following reasons:

- Retailers of all sizes are more aggressively marketing their private-label products, reducing the shelf space and resources available to CP brands.
- As retailers and CP companies seek to influence shoppers at the shelf, the growing volume of in-store marketing is raising the bar for in-store execution.
- The surge in out-of-store shopper marketing raises the pressure to “seal the deal” in the store.

The recession of 2007–08 also stimulated the need for analyzing ROI—knowing what pays and what doesn’t—and having processes in place to expediently share those

insights with everyone responsible for brand success and trade relationships. It has provided an object lesson in how quickly shoppers can change their trip and purchase behaviors. Some of their new behaviors, especially their frugality, are likely to be enduring. But whether we experience an economic recovery or another dip, there are sure to be new alterations in their behaviors, especially their sensitivity to promotions, store conditions, thematic messaging, and more. For these reasons, it is critical that a CP company be able to correct its course on the fly based on accurate, timely in-store data, and know which levers to pull to yield the optimal ROI.

Unfortunately, ineffective internal trade processes and systems often prevent CP companies from identifying and investing in the most effective trade programs, particularly in account-specific contexts. In addition, companies face a variety of external challenges in their efforts to optimize trade spending, including poor program compliance, haphazard in-store execution, and hit-and-miss field reporting. Without a clear view into the effectiveness of trade spending and in-store execution, CP companies find it difficult to improve their competitive stance and satisfy stakeholders, especially retailers.

In short, CP companies must have greater visibility into ROI if they are to better direct their trade spending to more effectively build their own (and retailers’) top and bottom lines, as well as consumer loyalty. This survey was designed to help CP companies understand how to achieve this visibility and ultimately boost the ROI of their trade spending.

METHODOLOGY

In May 2010, Booz & Company and Quofore conducted an online survey of executives at CP companies and retailers as phase two of the 2010 Global In-Store Practices Survey. The survey was designed to better understand ROI practices in consumer packaged goods, including the following:

- The percentage of companies that measure ROI for in-store sales and merchandising activities
- The level at which the companies measure ROI (individual events or in aggregate)
- The metrics that serve as the basis for their ROI calculations
- The factors that impact in-store ROI
- The frequency of ROI measurement and review

- The distribution of ROI reports
- The actions taken as a result of ROI analysis

The survey's respondents were segmented according to three criteria:

- Annual revenue: less than US\$1 billion versus more than \$1 billion
- Primary in-store focus: direct store delivery (DSD) versus sales and merchandising
- In-store technology: "high" versus "low" sophistication

The survey generated responses from CP and retail executives in the United States, Europe, and Asia. Responses were reviewed for data integrity and participant relevancy. A final data-set population of 69 respondents included professionals

in sales, marketing, IT, and senior management from a cross section of industry sectors (see Exhibit 1).

The characteristics of the respondents included the following:

- Twenty-eight percent were small companies (less than \$100 million in annual sales), 31 percent medium-sized companies (\$100 million to \$1 billion), and 41 percent large companies (more than \$1 billion).
- Sales and merchandising was the primary in-store focus of 66 percent

of the companies; DSD was the primary focus of 18 percent.

The CPG manufacturing and retail executives who participated in the study were chosen from the contact databases of Booz & Company and Quofore. They were asked to complete the online survey via an invitation sent to their business e-mail address. The survey included multiple-choice questions with either a single answer or multiple answers.

After independent analysis of the raw survey data, Booz & Company and

Quofore shared insights with each other and developed joint insights.¹ All affirmative statements, survey finding summaries, and report recommendations were arrived at through an analytic process combining cross-tabulation, indexing, and segmentation of the survey results. The findings and conclusions in this report are the result of this collaborative review process between Booz & Company and Quofore, drawing on the domain expertise of subject matter experts from both companies.

*Exhibit 1
Participating Companies*

- Cadbury	- L'Oréal
- Campbell Soup	- Makita
- Dannon	- Mars
- Dean Foods	- McCormick
- Diageo	- Nestlé
- Dr Pepper/Seven Up	- Pharmavite
- Hostess Brands	- Sara Lee
- Kellogg	- Stanley Black & Decker
- Kraft Foods	- Tasty Baking
- Lance	

Source: Booz & Company–Quofore 2010 Industry Benchmark ROI Survey

BASE RESULTS

Select Survey Questions and Primary Responses

Do you measure ROI for in-store sales and merchandising activities?

Yes: 62%

No: 38%

Do you measure ROI at an aggregate level or for each individual program/promotion?

Individual events: 74%

Aggregate: 26%

Which metrics are included in your ROI calculations? (multiple responses)

Immediate incremental sales lift: 89%

Cost of the promotional incentive: 80%

Cost of the promotional price discount: 71%

Increase in segment share: 66%

Sustained post-event sales: 49%

Effect on competitor sales: 31%

Labor cost to execute: 23%

Other: 9%

Which factor has the greatest impact on in-store ROI? (top three answers)

Out-of-stocks: 42%

Trade promotion compliance: 41%

Rep call productivity: 13%

How frequently does your organization measure and review ROI?

By program: 43%

Monthly: 24%

Weekly: 15%

Quarterly: 12%

Semiannually: 3%

Other: 3%

Who regularly receives reports on the ROI of in-store programs? (multiple responses)

Sales middle management: 67%

Sales senior management: 61%

Marketing middle management: 58%

Trade marketing senior management: 55%

Trade marketing middle management: 48%

Marketing senior management: 48%

Corporate senior leadership: 33%

Actions taken based on ROI analysis:

Promotions are continued, discontinued, or redesigned and re-implemented: 76%

Rebates and other payments are made to trade accounts: 21%

Employee compensation is determined: 3%

RESULTS ANALYSIS

Virtually all of the survey’s respondents recognize the importance of improving their company’s ability to execute on the account level and are investing heavily toward that end. But only about one in three companies are capturing and analyzing the data needed to ascertain the success or failure of their trade programs.

The first phase of the Booz & Company–Quofore survey revealed that CP companies are investing in technologies aimed at improving performance in three progressively more sophisticated facets of in-store sales and marketing: shelf presence monitoring, field force productivity, and promotion compliance (see Exhibit 2). However, only 37 percent of CP companies achieve the return on investment that they expect from their in-store sales and merchandising promotions. Typically, these are companies that have already invested in the processes and systems necessary

to monitor promotion compliance and/or integrated trade promotion management systems. The remaining companies, 63 percent, either know they don’t achieve it or are unsure whether their programs deliver the expected returns.

The second phase of our survey established that there is widespread adoption among CP companies of the technology needed to monitor in-store conditions, such as shelf presence, orders, deliveries, and merchandise displays. Further, an increasing number of companies are already applying the technologies needed to raise field force productivity and better manage tasks in-store. The survey also revealed that fewer companies are undertaking efforts to improve automation, processes, and skills aimed at supporting their ability to analyze and optimize trade promotions. Because the ability to establish ROI at the event level and achieve targets is an important basis for competitive advantage, and those companies that have this capacity are raising the ante in the CP sector, we would expect that more and more of the remaining 63 percent will invest in similar initiatives.

The most notable findings of the survey include the following:

- The more technologically sophisticated the company, the better its chances to monitor and achieve trade event ROI.**
 - Overall, 62 percent of the surveyed companies measure ROI.
 - Eighty-two percent of large CP companies measure ROI for in-store events versus 48 percent of smaller companies.
 - Seventy-one percent of CP companies that have “high” levels of technological sophistication measure ROI; 56 percent with “low” levels do so.
 - Seventy-five percent of CP companies that measure ROI do so at the event level.

CP companies that own or license trade promotion management (TPM) solutions are more likely to achieve their ROI targets. These results are from phase one of the survey:

*Exhibit 2
Three Major Facets of In-Store Sales and Marketing*

SHELF PRESENCE MONITORING	FIELD FORCE PRODUCTIVITY	PROMOTION COMPLIANCE
<ul style="list-style-type: none"> - Out-of-stocks - Order entry - Order history tracking - POS material delivery - In-store inventory checks - Call planning - Stock delivery - Cash payments - Credits/returns - Route planning - Call results reporting 	<ul style="list-style-type: none"> - Store segmentation - Customer profiling - Actuals vs. target tracking - Route optimization - Activity scheduling - Call productivity tracking - Surveys - Category planning - Contact management 	<ul style="list-style-type: none"> - Share of shelf - TPM integration - POS integration - Competitive price monitoring - Promo compliance, with RFID - Promo compliance, without RFID - Workload modeling - Price checks - Collections - Asset tracking - Competitive activity

Source: Booz & Company

- Among the 40 percent of respondents that don't know if they are achieving in-store ROI, 83 percent lack the applications/processes to drive promotion compliance at retail and 50 percent lack TPM integration capabilities.
 - Eighty percent of respondents that don't achieve in-store ROI lack TPM integration, and 60 percent lack applications to monitor promotion compliance at the retail level.
 - Among the 37 percent that do achieve in-store ROI, 60 percent have TPM integration and 40 percent have promotion compliance applications as well as processes and technology to monitor competitors' merchandising and pricing activity.
 - CP companies that measure and analyze field productivity and promotion compliance are 50 percent more likely to report ROI goal achievement than companies that only conduct in-store monitoring.
- 2. The lack of sufficient IT systems and internal skill sets poses significant barriers to measuring event ROI.**
- Among the one-third of respondents that don't measure in-store event ROI, 45 percent cite IT-related issues as the reason. They believe that trade management systems fail to produce consistent or reliable data, and that current software packages do not support post-event analysis.
 - Moreover, 28 percent of respondents say their companies lack appropriate skill sets to analyze data. This is unsurprising, given that training and other skill development activities are often overlooked by companies in their eagerness to pursue trade promotion analysis and optimization.
- The ROI measurements at large CP companies (more than \$1 billion in annual sales) are more sophisticated: 32 percent of these companies say they go beyond incremental sales and trade promotion costs to include competitors' activities, labor costs, and sustained post-event sales. By contrast, only 13 percent of small and medium-sized CP companies measure beyond incremental sales and promotion costs.
 - Eighty-one percent of respondents plan to invest in technology to monitor event-level ROI within the next 12 to 24 months. Of these respondents, 55 percent are investing in process improvements; 36 percent are investing in IT systems or software upgrades. This suggests that CP companies are more aware of the critical role of process in terms of delivering higher event ROI than in the recent past, when companies were often focused on software as the key element in improving ROI.
- 3. The smaller the CP company, the greater the effects of out-of-stocks on in-store ROI. The larger the CP company, the greater the effects of trade promotion compliance on in-store ROI.**
- Eighty-three percent of all respondents cite out-of-stocks or trade promotion compliance as the most influential factor affecting in-store ROI.
 - *Out-of-stocks*: 77 percent of small and medium-sized CP companies (\$1 billion or less in annual sales) say out-of-stocks are the number one influence on in-store ROI, compared with 32 percent of large CP companies (more than \$1 billion in annual sales). This is probably because smaller companies find it harder to defend their shelf and display presence.
- *Trade promotion compliance*: 62 percent of large CP companies say trade promotion compliance is the top influence on in-store ROI versus 21 percent of small and medium-sized companies. This result is almost certainly influenced by the fact that large CP companies run more trade promotion events.
- 4. Event-level ROI is regularly reported to senior executives, but results aren't linked to financial incentives.**
- Nearly half of CP companies (44 percent) distribute event-level ROI analyses.
 - Sixty percent of those companies share ROI results with the highest tier of sales management; 55 percent send ROI results to the highest tier of trade marketing; and 48 percent share ROI results with the highest tier of marketing.
 - One-third of the companies surveyed report that event-level ROI reports are regularly circulated to their C-suite executives.
 - Fully three-quarters of respondents say ROI results dictate whether a program succeeded or not, and whether it should be continued, discontinued, or redesigned and re-implemented.
 - Just 21 percent of respondents say the post-event analysis determines the payment of trade rebates or other allowances to retailers; only 3 percent linked results to internal incentives.

PRACTICAL INSIGHTS

The survey results offer four practical insights for CP companies seeking to achieve the targeted ROI on their trade events and deliver superior financial performance.

First, CP companies that achieve ROI targets at the event level invest in both IT systems and processes, and their senior leaders are involved in trade efforts. Senior leaders understand that trade efforts are an integral part of corporate success, and as a result, they support headquarters, account, and field teams by investing in the technologies, internal alignment, and collaboration necessary to excel in achieving trade ROI.

Second, promotion compliance and TPM integration are critical success factors for achieving optimum ROI.

The survey clearly indicates that CP companies that achieve their ROI targets do so by investing in TPM integration and/or solutions for monitoring promotion compliance. These CP companies deploy the field technologies needed to monitor retailer promotion compliance. They also integrate TPM systems with planning and decision processes in order to create one version of the truth and align the actions of the entire organization.

Third, the journey to achieve in-store ROI involves building a set of operational capabilities that are underpinned by key processes, enabling technologies, and internal skills. Accurately measuring and continuously improving in-store event ROI requires in-store monitoring, field productivity, and promotion compliance. As reported above, most CP companies have the processes and technology in place to perform in-store monitoring. Many are actively focused on improving their field productivity. But only a handful of leading companies have taken the

final step and begun investing in the processes and IT systems required to accurately measure and analyze promotion compliance in an ongoing and rigorous manner. This survey shows that there is a direct statistical correlation between companies that achieve this at the event level and those that are attaining their ROI targets.

Fourth, our survey reveals that many CP companies may not be investing in the right areas. Roughly 80 percent of the CP companies surveyed do not plan to invest in improving their promotion compliance capabilities within the next 12 to 24 months. Further, the majority of the companies report that when they do invest, it will be in processes and skill sets, not in trade promotion compliance technology. As mentioned above, the inability to accurately measure and address promotion compliance jeopardizes the reliability of ROI metrics.

Endnote

¹ Results presented in this report are statistically significant for North America. The data collected from Europe and Asia concurs with the data collected from North American companies, but the relatively smaller sample size doesn't satisfy the analytic requirements for the same level of statistical significance.

CONCLUSION

The results of the Booz & Company–Quofores 2010 Industry Benchmark ROI Survey highlight the differences between the data and metrics that large CP companies use in their ROI calculations, and those of small and medium-sized companies. But very few companies in any of the three revenue categories have the tools necessary to measure performance at the shelf. Quantitative downstream data becomes much more actionable when in-store variables such as on-shelf availability, presentation compliance, and competitor activity are factored into the equation. As a result, these companies cannot fully assess the impact of their promotions at the store level or surface the insights needed to make decisions moving forward. Until this gap is closed, obtaining the optimal ROI from trade promotion in the consumer products sector will remain an elusive goal.

About the Author

Jon Van Duynes is a Booz & Company senior executive advisor in Atlanta. He specializes in the systematic improvement of sales and marketing effectiveness in consumer products companies.

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