

# Trade Promotion and Distribution Spend Optimization

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## India's retail landscape

India's retail environment has a multi-tier network structure, with a large number of channel partners, trade intermediaries and retailers. Unlike developed markets, where suppliers deal directly with a few large retailers, this multi-tier distribution and front-end structure poses unique challenges and opportunities.

Consumer firms spend approximately 5% of sales (growing at a CAGR of 15%-17%) as below-the-line (BTL or trade & distribution) spends in India's multi-tiered network in addition to above-the-line (ATL) spends. While in the past MRoI initiatives have focused on ATL spends, there are no known instances of BTL optimization for fragmented markets.

Most CG&S companies face several sales and distribution challenges from a retailer as well as portfolio management perspective. Firms have invested significantly in building MIS capabilities on their front-end that help drive insights on retailer segmentation, portfolio performance evaluation and sales force effectiveness.

### What are the key characteristics of my current retailer base?

- What are the critical retailer segments from a business standpoint and which ones should I focus on to achieve growth?
- Which promotion will maximise gross margins?
- What is the revenue elasticity of retail segments with respect to schemes/discounts?
- Where should I run specific promotions?

### How is my product portfolio performing across these retailer segments?

- From a category perspective, which set of retailers is important for (a) Revenue (b) New Products (c) Response to Schemes?
- Which segments should I focus on for select brands?
- How have my retailer segments performed over time?

### How do I gauge and forecast the impact of any promotions?

- How do I optimally allocate promotion spends within my budget constraints?
- Where am I over-spending?
- How do I conduct what-if analyses that lead to actionable decisions?

## Spend optimization complexity in fragmented markets

### Disparate systems

Increasing channel partner sophistication and competition have led CPG firms to focus on making BTL spends more effective and most of them have invested in building transactional capabilities across the network (ERP, POS). However, this data is disjointed, as it is resident in disparate systems, and at best yields rudimentary MIS analysis.

### Fragmented front end

The sheer enormity of carrying out a BTL optimization exercise across a fragmented front end – 1 million retailers, ~ 1500 distributors and multiple products with disparate disjointed systems is a strong impediment for any CPG firm.

The huge retailer base makes it impossible to assess each retailer individually. This clearly limits the ability of CPG firms to leverage resident information and conduct data-driven initiatives like trade promotion, sales force effectiveness forecasting and improving key distribution parameters.

## Our approach

The Trade & Distribution Spend Optimization module is a patent pending innovation aimed at helping consumer goods firms deploy their distribution spends more effectively and meet business objectives such as revenue maximization or cost rationalization.

Accenture's Trade & Distribution Spend Optimization solution offers a combination of steps and tools that:

- drive insightful, intelligent and profitable retailer interactions
- accomplish topline/ bottomline benefits for firms, using an analytics-driven customer segmentation methodology
- help CPG firms answer what should be the optimum level of incentive for each product for each retailer.

Key trade and distribution spend levers that can be targeted in fragmented markets include product scheme discounts, trade discounts, servicing costs and visual and merchandizing spend.



Figure 1  
Optimization rationale for effective trade and distribution spend

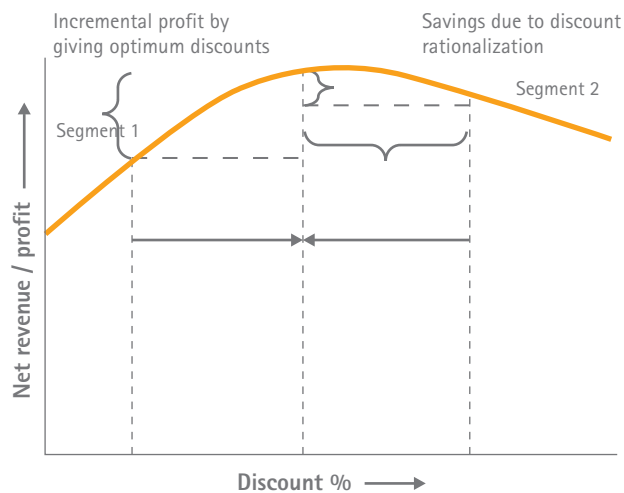
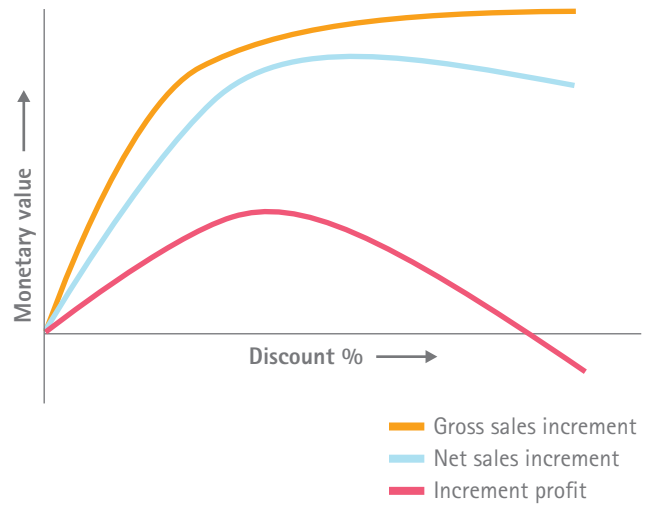


Figure 2  
Generic retailer response curve



Accenture's trade & distribution spend optimization methodology



For a product \* discount combination, there are two possible scenarios for every retailer (Figure 1):

- Excessive discount being provided to retailers – leaving money on the table
- Potential for incremental profit if the retailer is being given an incentive which is less than the optimum limit.

Retailer response translates to varying incentives (Figure 2).

However, the inability to conduct a scientific analysis forces most CPG firms to rely on rudimentary analysis of historical data for allocating budgets.

**Our methodology**

**Generate integrated retailer data**

To counter the challenge of disparate systems in a fragmented landscape, Accenture has leveraged its technology expertise to deploy a commercial intelligence data platform. It combines data from multiple disjointed systems such as POS, ERP, Nielsen and

promotional calendars to provide an integrated view of the retailers. The data set is transformed to an "analysis-friendly" form. This commercial intelligence platform has an inbuilt "data cleansing tool" to weed out erroneous data/outliers which can skew the analysis. The outliers, however, are studied for specific patterns and qualitative insights.

**Conduct retailer segmentation**

The data is then subjected to a retailer segmentation exercise based on advanced statistical techniques and tests. Retailers are segmented along key business levers such as revenue, purchase patterns, response to incentives, demographics, channel and categories. This helps identify homogenous groups that have a similar response to each of the business levers and can be targeted accordingly.

**Draw correlation through deep profiling**

An econometric modeling exercise is conducted for each segment

where multiple response curves for sales are drawn for key BTL spend components. Advanced statistical techniques and regression methods are then deployed to obtain the relation between the spend drivers and incremental sales to determine the optimum levels of spends – both at the category and spend-type level.

**Forecasting**

This solution is then extended to form the basis of scientific product/market level forecasting by incorporating trade promotions response into the model. From an implementation perspective, a natural extension would be deploying the Sales Force Effectiveness solution (SFE) by using PDAs not only for demand capture but hardwiring the results of the optimizer.

Hence, the developed algorithm is a hybrid approach and is able to accurately break up the retailer base into homogenous groups and provide the flexibility of both rolling up as well as drilling down into further segments.



### Segment characteristics

% Retailers	6%
% Revenue contribution	2.30%
Response to scheme	Medium
Primary channel	KG and MG
Demographics	North and West
Primary categories	Hair oil
Average lines/bill	9

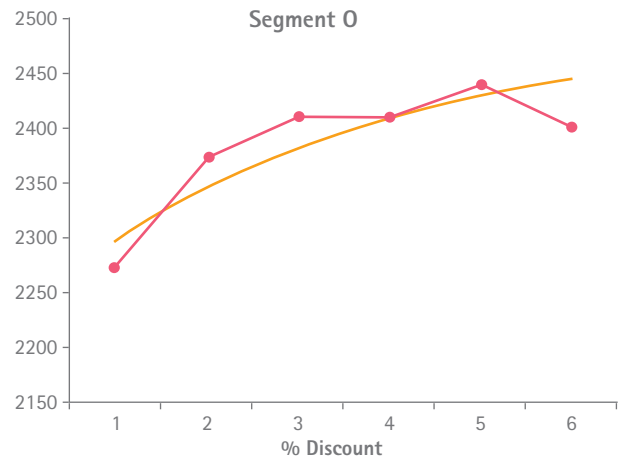
### Monetary evaluation

Average sales per retailer (monthly)	2359.33
Monthly revenue from segment (lacs)	308.62
Conversion rate	19.1
Return on every rupee spent on servicing	88

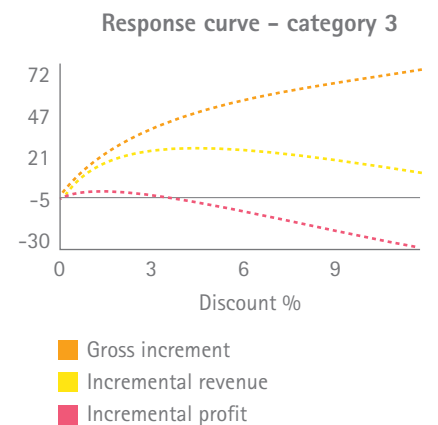
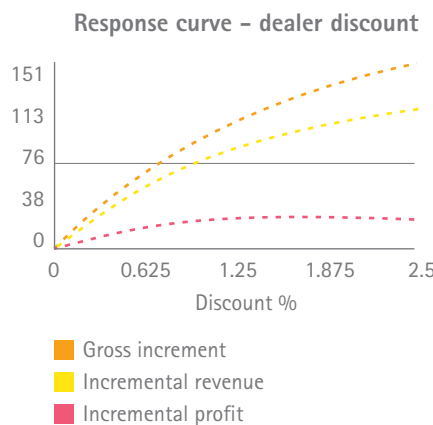
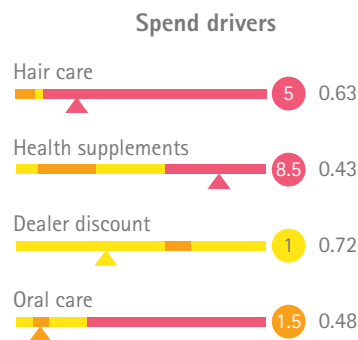
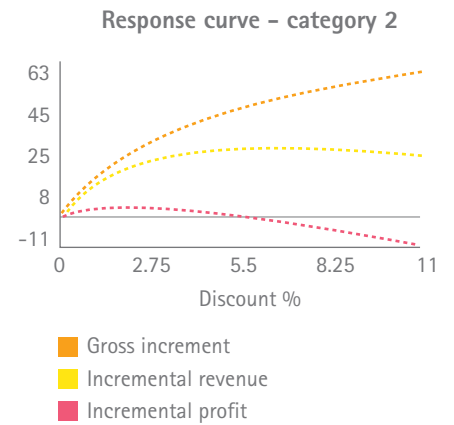
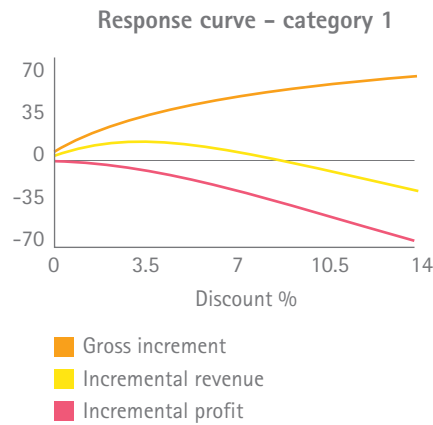
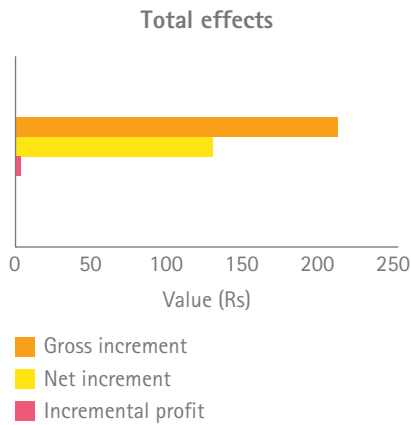
### Segment insight

Discount elasticity

Optimum value



## Spend optimizer



The solution has been created by leveraging deep analytical skills, application of statistical techniques and econometric modeling. To validate the analysis, the data is split into two: the latter being used for validation of the models. Apart from rigor in analysis, the solution was subjected to adequate business checks e.g. caps built in for competitive response, market realities and a triangulation approach deployed to validate the sanctity of recommendations.

## Proof of concept

We have conducted a proof of concept for a leading domestic CPG player. Our client, like most other FMCG firms in India, had a complex, multi-tiered distribution network including multiple warehouses (CFAs), a large number of distributors (stockists), significant dependence on wholesalers (intermediaries) and a wide reach from a retailer perspective.

We helped the firm leverage its technology investments in its sales and distribution network helped link tertiary sale data to the firms trade marketing and distribution plans. We helped design a commercial intelligence platform for the client by aggregating sales information and data across a significant portion of its direct distribution. This helped the firm understand its retail universe better and implement promotional strategies targeted at impacting business levers.

An in-depth statistical analysis resulted in the firm identifying a few distinct and homogenous retail segments. These segments were then analyzed using an econometric model that helped identify the performance of each retail segment against specific spend levers. The response curves for each retail segment were captured across product categories, types of Trade discounts and Merchandizing spends to be able to create a detailed matrix of investment/ saving opportunity areas.

## Potential benefits

The exercise resulted in the identification of the following potential business benefits:

- Cost reduction potential of 15%-20% on current schemes and discounts (revenue being constant)
- Incremental revenue enhancement potential of 3%-5% by redeploying existing spends across multiple buckets in an optimum manner

## Using the spend optimizer as part of a larger strategic initiative

Besides deploying the spend optimizer as a standalone module, many firms deploy it in conjunction with business initiatives aimed at leveraging the supply chain, sales execution, trade marketing, sales incentivization, among others.

- **Integrated demand planning solution:**

This helps leverage the understanding of individual trade segments and the impact of promotions across these segments to develop accurate demand plans. The spend optimizer thus acts as a critical link between trade marketing and supply chain by helping build an integrated demand planning and promotions management solution.

- **Integrated incentivization module:**

Helps leverage portfolio performance across trade segments to build an incentivization module that is linked to the identified business levers of each trade segment. The spend optimizer thus acts as an aid to incentivization and a feedback mechanism to evaluate sales force performance against identified criteria.

## For more information

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