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TRADE PROMOTION INSIGHTS: 2011 TRENDS AND 2012 PREDICTIONS

2011 was certainly a memorable year. Unfortunately, many of those memories are not exactly pleasant. From global economic issues and dysfunctional government decision making to spiraling health care, unemployment and the rising cost of food. The reality is that a significant part of what drives industry trends is out of one's direct control. Thus, many like to generalize macro-factors as favorable, against or neutral and project the impact that they will have on the different aspects of business.

For 2011, most would judge the influence for these factors to be somewhere between neutral and against. And while one would like to be more optimistic, 2012 is likely to be more of the same with neutral being the high-water mark.

As a result of this environment, every part of the supply chain – Manufacturers, Brokers, Distributors, Retailers and Consumers – faced a unique set of challenges. But there was also amazing resilience and commitment to deal with and overcome the obstacles. In one sense, the recession of 2008 has prepared us well. Both businesses and consumers have adopted courses of action that many feel will 'give them an edge.'

The purpose of this paper is to review the most influential trends that impacted the Consumer Packaged Goods (CPG) industry in 2011. A look at what may lie ahead for 2012 and beyond will also be outlined.

KEY TRENDS OF 2011

The Consumer

Many agree that the biggest and most challenging aspect of 2011 is the rising cost of food. And who is going to absorb the higher prices? Each part of the supply chain can only take up so much. Consumers are constantly looking at ways to save money at the grocery store, in many cases, to allocate to other categories of spend in their lives. They are shopping and living much smarter these days and look for the best value. This is what defines 2011 from a consumer's perspective -- Smart Living. There is less trading down, less buying in volume and less stretching of the product. People today, both baby boomers and the younger generations, want to make better choices so they can enjoy life to the fullest. Consumers are willing to pay more for healthier, fresher and environmentally friendly.

Fun Facts from the Consumer

90% will spend cautiously[3]

84% are more precise in what they buy[3]

80% look for products that are healthy[4]

77% use the money saved from couponing to pay for food and gas[6]

60% look for products that are local[4]

Coupon usage increased for fifth straight year[6]

Newspapers remain the top place to find coupons[5]

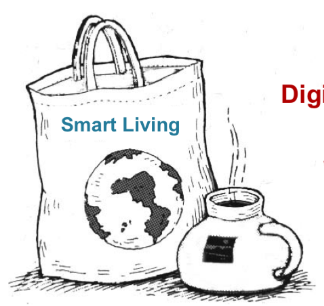
25% report using coupons sent to a mobile device[4]

Given today's economic conditions, the consumer finds oneself constantly evaluating options and making trade-offs. There is less loyalty to a singular brand, but rather loyalty to a group of products in a consideration set. For example, a smart consumer will build a 'consideration brand-set' when shopping for peanut butter. Assume they have already decided that Jif®, Skippy® or Peter Pan® brands will suffice. The final purchase will be made from within that brand-set based upon price. If economic conditions do not start to improve, expect the consideration set scheme to be utilized for more categories.

One of the keys of shopping and living smarter is information. Consumers want to understand what is best for them, how much it costs and if they can get a good deal on it. Value is king! The social media and smart phone era couldn't have come at a better time. (Indeed, the shift in consumer buying habits was likely caused by a combination of economic woe and technology innovation that helps us cope). For many, it's all about planning the purchases and scoring the best deals on products that deliver enjoyment.

As a result, consumers utilize many techniques (see below). BOGOs, newspaper coupons, flyers and end-cap displays remain important, but digital marketing is definitely now part of the process. Loyalty programs are also a big hit. It seems as if consumers are willing to be 'loyal' to everyone in town. Take a look at the key ring of any shopper waiting in the check-out line. How many different retailer loyalty cards does it hold? Consumers will join as many loyalty programs as they can if it means getting the right price!

Packaging **User experience** **In store feature & display**
Circulars **Group On**
Preferred products **Label reading**
Loyalty programs
Blogs **Newspaper ads** **Facebook**
Samples & trial sizes **Healthy choices**



Targeted email **Digital ads** **Helping the needy**
Mobile coupons **Word of mouth**
Sale price **Environment friendly**
Family favorite
Extreme or normal couponing **Television programming** **BOGOs** **Twitter**
TV & radio advertising **Every day low price** **Comparing prices** **YouTube** **Rebates**

Manufacturers and Retailers

Manufacturers and Retailers responded to the challenges of 2011 by trying to build better relationships. Forty-one percent (41%) of manufacturers reported[1] improved relationships with retailers, while one-third reported improved relationships with distributors. Because of the change in buying habits, both groups focused heavily on improving their understanding of the consumer. The amount of shopper insights data being examined increased although it still isn't as integrated into key systems.

2011 was also the year when Manufacturers and Retailers engaged more heavily with social media and digital marketing. Driven by the desire to establish and maintain a 1:1 marketing relationship with shoppers, a significant amount of the marketing budget has been carved out for these activities. Not only does 1:1 marketing provide more in-depth shopper insights, but it allows the manufacturer and retailer to market and promote blindly to competitors. These efforts are still in the early stages, however. Again, integration of information into key systems and mastering the supporting analytics are two elements that are needed to take this initiative to the next level. Of course, one has to wonder just how many 1:1 relationships consumers will establish and if it will follow the same pattern as seen with loyalty cards.

Retailers also spent 2011 balancing a variety of additional strategic initiatives. Private label is an important strategy and retailers seem committed to adding 'higher quality' private label products that will be more competitive in the marketplace. There also continues to be a heavy focus on improving the in-store customer experience and meeting a shopper's changing needs. Finally, as you walk the aisles, one will find more local products as well as naturals and organics. Again, all geared to the evolving needs of the consumer.

Manufactures spent much of 2011 focused on improving their productivity across the supply chain. One critical area of focus was trade promotion management. For most companies, this is the second largest expense behind the cost of goods sold. A recent study[1] revealed that half of manufacturers reported an increase in focus by the C-suite on TPM. Also, forty-two percent (42%) added additional staff to help manage the TPM process. Why all the attention? As outlined in the next section, dissatisfaction with this very important process is creating focus and change.

THE STATE OF TRADE PROMOTION MANAGEMENT (TPM)

To better understand CPG industry views, MEI Computer Technology Group conducted a survey[1] completed by 120 CPG manufacturers. The results continue to be somewhat mystifying. Despite the increasing importance of getting TPM right, significant dissatisfaction still remains through-out the process. Hightlights include:

Only 44% are satisfied with their TPM process. The biggest impediment is the tools being used to manage TPM, with only one-third being satisfied with their system.

The dominant system in place today is Excel®. Many companies can't seem to wean themselves off this traditional approach despite outgrowing it.

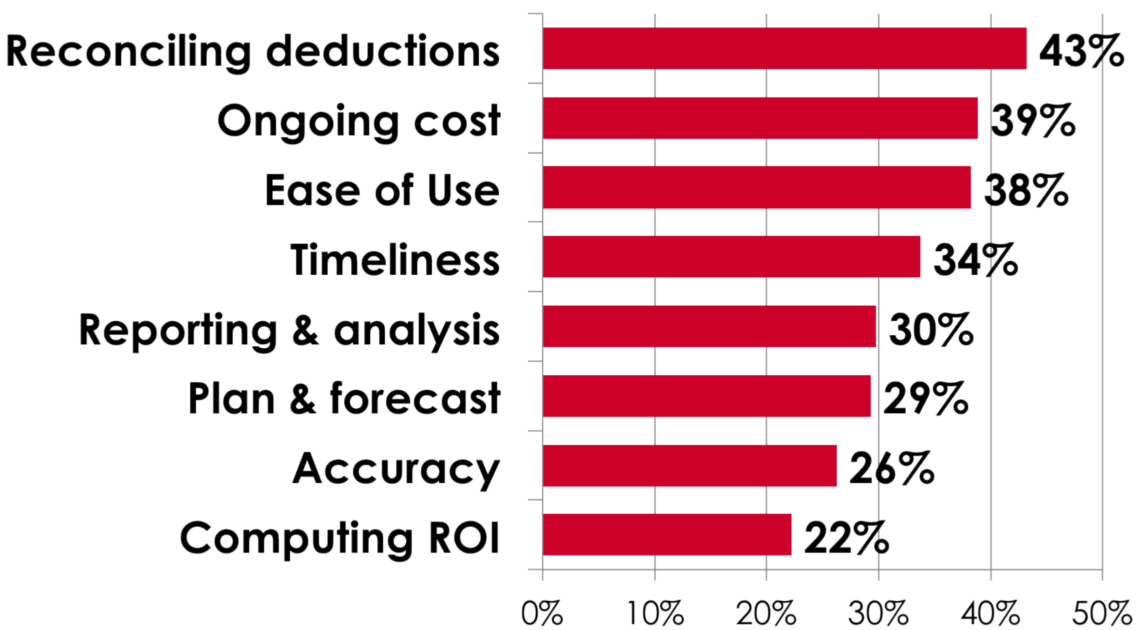
Two-thirds to three-fourths are dissatisfied with the accuracy and timeliness of data, the ability to plan and forecast and reporting and analysis capabilities.

TPM SYSTEMS USED

Excel®	52%
Purchased System	34%
ERP	6%
Other	8%

On the positive side, the adoption of Software-as-a-Service (SaaS) trade promotion management solutions is gaining traction. These affordable systems are far more efficient than Excel® and automate many of the manual processes allowing the users to focus on running their business. Importantly, those who purchased a system are nearly twice as satisfied as those who are using Excel®.

SATISFACTION WITH TPM TOOL/SYSTEM ATTRIBUTE



About the Survey

120 manufacturers completed the online survey in November and early December. Sixty-percent (60%) were food and beverage companies and 40% were non-food manufacturers. One-third of the participating companies have annual revenues exceeding $1B in sales while one-third ranked between $250MM and $1B in revenue. The remaining one-third reported sales at under $250MM.

PREDICTIONS FOR 2012

As we head into 2012, businesses and consumers are planning for 'more of the same.' There is no quick and easy recovery ahead. Price and expense will trend up with revenues and income struggling to keep up. But businesses and consumers are showing remarkable resiliency, however. With the right understanding, well thought out strategies and strong execution, both groups can come out ahead of the game.

The one group that is believed to have the biggest influence (excluding macro-economic conditions) is the consumer. Many have adopted a very complex buying scheme based upon real-time information, creation of considerations sets and a need to improve quality of life (not just find the best price.) Both Manufacturers and Retailers are becoming more in tune with today's consumer and salivate at the opportunity to leverage that knowledge to both increase store traffic and customer loyalty.

From a Consumer's Perspective

The consumer's pursuit of 'smart living' will continue in 2012. They are looking for the best value and will allocate those savings to cover necessities as well as invest in healthier options. Consumers of all ages are becoming information savvy and are utilizing both the Internet and social media tools in the buying process. Still, traditional trade promotion and marketing tactics such as flyers, displays, BOGOs and every-day-low pricing play a major role as well.

- Consumers will respond favorably to 1:1 marketing initiatives, especially those through smart phone applications.
- Consumers will continue to build and refine 'consideration sets' for each product category and select the best value from that set when shopping.
- Consumers will continue to research and plan options to make smart choices that have the most positive impact on themselves and their families. Interest in healthy, environmentally friendly and locally produced items will continue to grow.
- Consumers will continue to be heavily influenced by trade promotions as long as the product falls into their consideration set.

From a Manufacturer's and Retailer's Perspective

With Baby Boomers controlling over 50% of the spending, expect to see both parties invest heavily to attract these shoppers. The trick will be to do so without alienating the young, mobile-savvy buyers who are critical to future growth. Those who master the art of 1:1 marketing will emerge as leaders.

Retailers will pursue alternative formats and store sizes. No longer will it be one size fits all. The store experience will be adjusted based on market characteristics and the primary buyer segments being targeted. Customer service will be king!

Natural and organic offerings will continue to grow online and in specialty shops. In addition, this product category will immerse itself in conventional grocery outlets. Consumers (young and old) want these products and are willing to pay more if they can free up some dollars.

Locally produced products will continue to gain importance with consumers. With the success of Farmers Markets, look for retailers to develop more local relationships in order to provide convenient, one-stop shopping.

One area to watch will be the relationship between Manufacturers and Retailers. It is believed that this relationship will continue to improve but will certainly require a lot of effort. Expect to see retailers working hard to develop the 'right balance' between private label offerings and traditional brands in order to keep stakeholders, manufacturers and consumers happy.

The Manufacturers who come out on top will be those with the ability to have visibility into sales and trade spend along the entire supply chain. This will lead to better coordination between sales and production, better retailer level performance and improved trade promotion effectiveness.

TPM Predictions

While trade promotion budgets will likely remain flat, expect to see a more 'optimized' use of funds. That means more tactics on more products in more targeted periods based on a better understanding of what consumers want and which promotions are working.

Understanding the profitability of individual trade promotion activity will be important. There will be a lot less of 'just do what we did last year.'

Expect to see a lot of trade promotion activity in the Natural & Organic space driven by both Retail and Manufacturer desires. Many consumers are just discovering this space and sellers need to get their attention!

With the triumph of SaaS-based trade promotion management solutions, expect to see more and more companies abandon static spreadsheets for software-based tools. The perfect storm is forming for buyers – tremendous improvements in visibility and effectiveness can now be gained at a very low cost (with ROI on the technology investment easily in the first year.)

Many companies will take TPM efforts to the next level with the incorporation of corporate objectives and sales planning and tracking. A good TPM solution will help CPG companies run business better (and be aligned with how they operate their business.)

Eventually there will be a marriage between trade promotion and consumer marketing. The courtship is now beginning (in many cases reluctantly.)

Trade Promotion Optimization (TPO) will continue to get a lot of hype in 2012, but not a lot of adoption. Companies will have to address short-comings in their TPM systems first. Look for TPO to gain momentum in 2013 as people continue the migration from homegrown systems to SaaS-based, TPM software.

FINAL THOUGHTS...

As key drivers such as the economy and technology continue to drive change, expect both CPG companies and consumers to continue to be resilient and focused on how to get the most out of the situation. Trade promotion activity will get even more intense and those with the best visibility into effectiveness will emerge as winners. Look for a big shift from Excel® to purchased SaaS solutions over the next two years. Also look for both manufacturers and retailers to invest heavily into 1:1 marketing. At some point, this will likely create a convergence of shopper marketing activities and trade promotion activities.

Lorne Schwartz
President & CEO, MEI Computer Technology Group Inc.

1. MEI 2011 CPG Year-in-Review Survey 2. CGT 2011 Sales & Marketing Report 3. The 2010 American Pantry Study (Deloitte, Harrison Group) 4. 2010 BrandSpark American Shopper Study 5. Scarborough Research 6. NCH's Consumer Survey