



Supply Planning for Promotions & New Products

*How to Leverage the Food Service Supply Chain
to Maximize Margins despite High Demand Uncertainty*

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Introduction

Intense competition, a volatile economy and price conscious customers, challenge food and beverage companies' attempts to increase market share and achieve profitability goals. The key for food companies is to successfully distinguish themselves from the competition and build sales in this demanding economic environment.

In order to boost sales, promotions' planning has emerged as a key revenue generating strategy amidst various other marketing strategies. According to a survey conducted by Gartner, promotions, new product innovations, and sales incentives will be key drivers of revenue growth over the next one-to-three years.¹ Promotions planning is extensively used by marketers to increase sales, introduce new products, counteract competition or potentially attract new customers. An effective promotion can lead to savings of 10-15% on bottom-line operating results on an ongoing basis.²

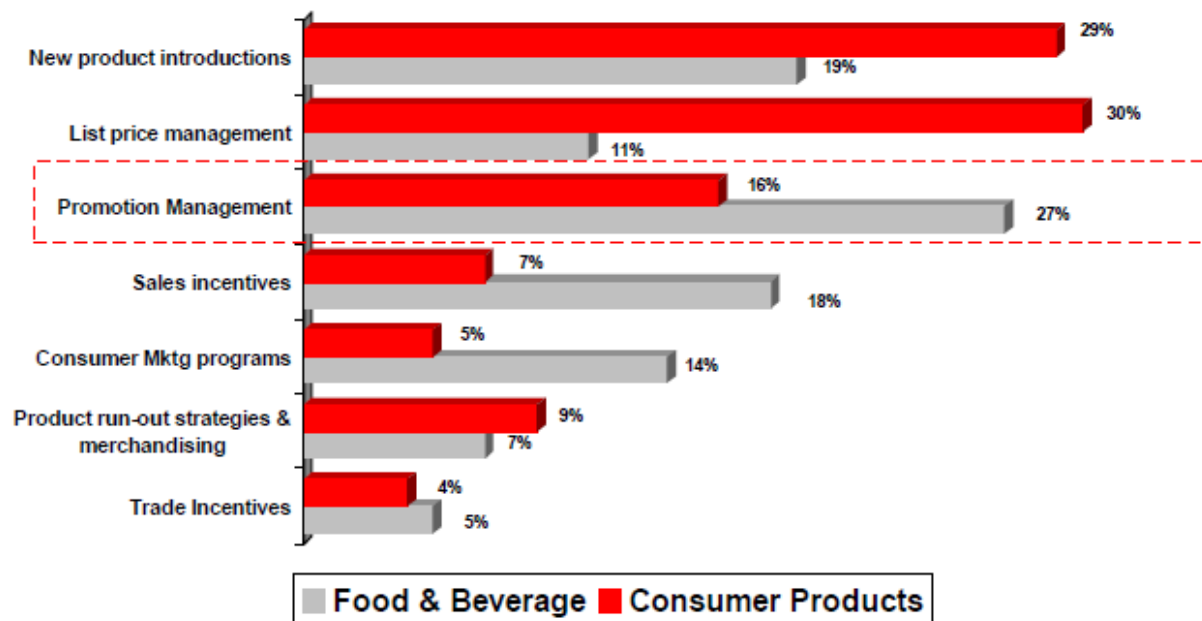


Fig 1: Revenue generators for CPG and Food Industry

Promotions entail a great revenue opportunity with an equally strong challenge to manage the uncertain demand created by limited time offers (LTOs) and new menu items. Moreover, promotions entail further uncertainty due to other factors like cannibalization effects, changing competitive offerings in the market, and volatile commodity costs. A well-orchestrated promotions plan can be the difference between increased profit and a potential loss. It requires strong collaboration, speed of response, visibility between supply chain partners and an equally dynamic planning capability to manage promotional targets.

Food Industry Challenges

High demand uncertainty is a major challenge for companies planning promotions. This problem is exacerbated for new products that have no past history to rely on for creating a forecast. Companies deal with two major supply chain challenges in managing a promotion: 1) managing replenishment with optimal cost and capacity allocations and 2) ensuring margin targets for promotions.

1. Gartner, "Trade Promotion Management in Consumer Products, Trends and Market Trends", 2008
 2. Booz & Company, "Trade Promotion: A Framework for Growing Profitability", GMA Executive Conference, Greenbrier, 2008

Managing Replenishment



Fig 2: Promotional Challenges

The first problem is rooted in demand uncertainty. Companies inevitably face much higher or lower demand than forecasts. The higher demand scenario puts pressure on the system to get quick replenishment and higher costs are seen due to spot buy of increased volume. Spot buy cost increases may arise due to opportunistic behaviours, volatile commodity prices, suboptimal production lot sizes, expensive modes of transportation and quality issues. Capacity management is also critical as companies must make a trade-off between promotional demand and ordinary demand in case of sudden demand spikes.

Similarly low demand requires quick adjustment across supply chain partners to avoid waste.

Managing Promotion Margins

The second problem requires the management of promotional funds and an understanding regarding the costs of promotion. More often than not, companies see promotions as a one-off event and they fail to monitor the costs appropriately.³ They find it difficult to monitor forecasts, share information on time, carry out a promotion performance analysis and they lack a structure in the promotions planning process. It has been reported that 85% of companies are concerned with their ability to track and manage spending.⁴ Due to these reasons, companies continue to see little return on as much as 60 percent of their spend on promotions.

In order to improve promotions effectiveness, companies should move toward an integrated promotional planning process, aided by technological solutions. Research has found that companies who are winners in managing promotions distinguish themselves by setting trade rates based on strategic objectives and hard facts, executing and analyzing promotion programs with excellence, and putting in place the necessary organization and capabilities.⁵

Current State of Promotions Management Capabilities

In a recent study, it was found that companies doing well in promotions management have installed and launched tools for promotions performance management and are investigating next-generation tools (for example, tools for trade-promotion optimization), whereas non-winners are still somewhat preoccupied with the challenge of integrating pricing and promotions investment—a challenge that winners have already resolved.⁶

The existing solutions have not been able to adequately address the challenges present in industry. Though the solutions have evolved to address some of the advanced capabilities, there is still a need

3. BAIN & COMPANY, "Trade Promotion Management: Why 'Crash Diets' Don't Work", GMA Executive Conference, Greenbrier, 2006
 4. Clarkston Consulting and MEI, "Tackling Trade Spending in the Consumer Goods Industry", 2010
 5. EyeOn, "Promotion Planning for the Professionals in the Food and FMCG Industry", 2010
 6. GMA, McKinsey & Company, and Nielsen, "Winning where it matters: A focused approach to capturing growth", 2012

for better solutions to plan promotions. This was echoed as per a Gartner survey which found that 20% of respondents said their promotions management applications needed improvement, 43% said the applications met some of their needs and only 3% said that the solutions they used delivered best in class functionality.²

Effective promotions management requires capabilities as depicted in the figure below.³

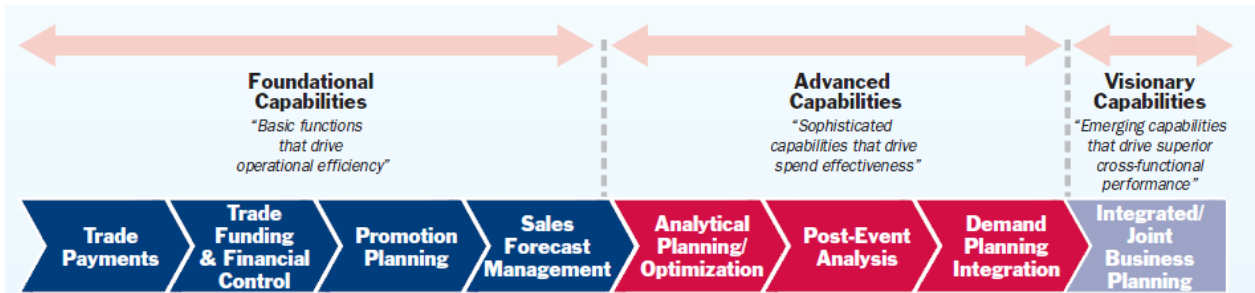


Fig 3: Capabilities for Promotions Management

Foundational capabilities are the basic capabilities pertaining to transactional control, tracking and review. Foundational capabilities are typically supported by and delivered through a company-wide CRM or ERP package.⁴

Advanced capabilities provide users with analytics to support improved decision making and promotion effectiveness, as well as the ability to dynamically manage promotional targets and demand in an integrated fashion. Companies that have successfully deployed these capabilities have done so with substantial configurations, add-ons, niche packages, and other customized solutions.⁴

Advanced capabilities should allow the user to have visibility, analyze forward looking scenarios and collaborate on the decisions in order to create an optimal plan.⁷

- **Visibility:** With technological advancements it is easier to get visibility into multi-echelon data. But with the scale of data and complex relationships within them, present capabilities require an easier data interface and faster processing in order to make timely decisions. This is extremely useful in case of promotions where the planning horizon is very short.
- **Scenario Analysis:** There are multiple decision variables in promotions with inherent variability. In addition to that there are inherent trade-offs between various supply chain variables. In order to analyze their impact and plan for multiple future possibilities, scenario analysis and optimization are essential planning tools for industry leaders.
- **Collaboration:** Providing the right information in real time to concerned supply chain partners is critical in the context of dynamic environment. Promotion planning success depends on aligning costs and capacities across the supply chain partners in order to generate demand. Inability to collaborate and provide visibility into demand can lead to effects like the Bull Whip effect across the supply chain.

In addition to these capabilities, the impact of real time analysis in a relatively shorter time frame can amplify the impact of decisions.

Drive Promotions with SCA Planner

Advanced analytical capabilities and speed of analysis are the backbone of effective promotion management as discussed in the previous section. As detailed below, the what-if scenarios for managing promotions replenishment and margins are almost endless.

Managing Replenishment

- Is there sufficient capacity available if demand is higher than expected?
- If not, where does additional capacity come from if my demand is higher than expected? Overtime? Switch production lines? New suppliers?
- Where should I release capacity if demands come in low?

Managing Promotion Margins

- How does overtime impact my margins during the promotion?
- What is the most profitable alternative for meeting increased or decreased potential demands?
- What effect does pricing which varies by demand have on my overall margins at various demand levels?

With SCA Planner supply planners finally have an integrated promotions planning solution that helps address these issues. SCA Planner has a real time multi-tier analysis and collaboration capabilities to address the complexities in promotions management. The solution has enabled its users to achieve the advanced capabilities within a finite amount of time.

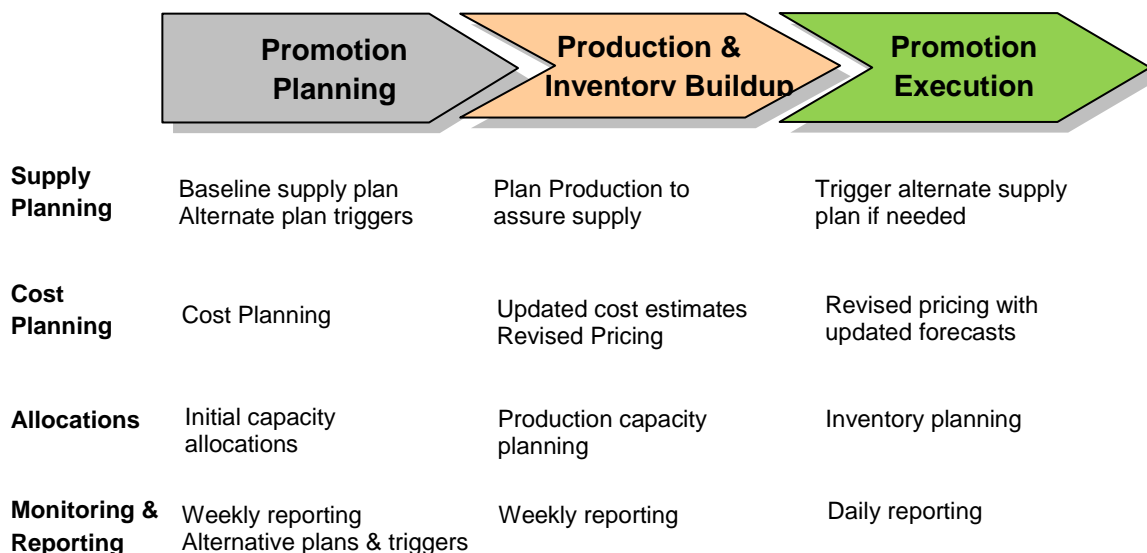


Fig. 4: SCA Planner Capabilities for Promotions Management

The solution provides an integrated framework of activity based costing and operations research to analyze forward looking scenarios. Scenario analysis requires accurate modeling of the supply chain which is based on an in depth understanding of the relationship between various cost and operational parameters. SCA Optimizer is built on the understanding of SCA Technologies in working with the food industry across different echelons.

Through its capabilities, SCA Planner can help senior managers and investors understand the promotional costs, benefits, and risks for managing promotions dynamically. It enables the user to have visibility of potential future outcomes and increase the speed and quality of business decisions thereby providing value to managers in the present dynamic environment. With SCA Planner's multi-period analysis capabilities, users can review past decisions—and outcomes—to establish a promotions performance framework within their organization. In essence, SCA Planner capabilities allow the user to increase the effectiveness and speed of promotion planning by allowing dynamic supply planning, managing collaboration and allowing a performance management framework to be established.

About SCA Technologies

For over a decade, SCA Technologies has provided category sourcing and cost management solutions that help industry leaders maximize profits by better managing market, supply and demand volatility. Supply chain, procurement, finance and corporate social responsibility professionals use the unique cross-functional approach of the SCA Planner™ suite to make better decisions for billions in category spend each year. With our patented technology, customers can finally address the tough challenges of volatile commodity prices, extended supply chain networks and corporate social responsibility tradeoffs in a coordinated manner. Our innovative, cloud-based solutions deliver increased visibility and quicker response, leading to an average 3-5% reduction in the cost of goods sold on an annual basis.

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