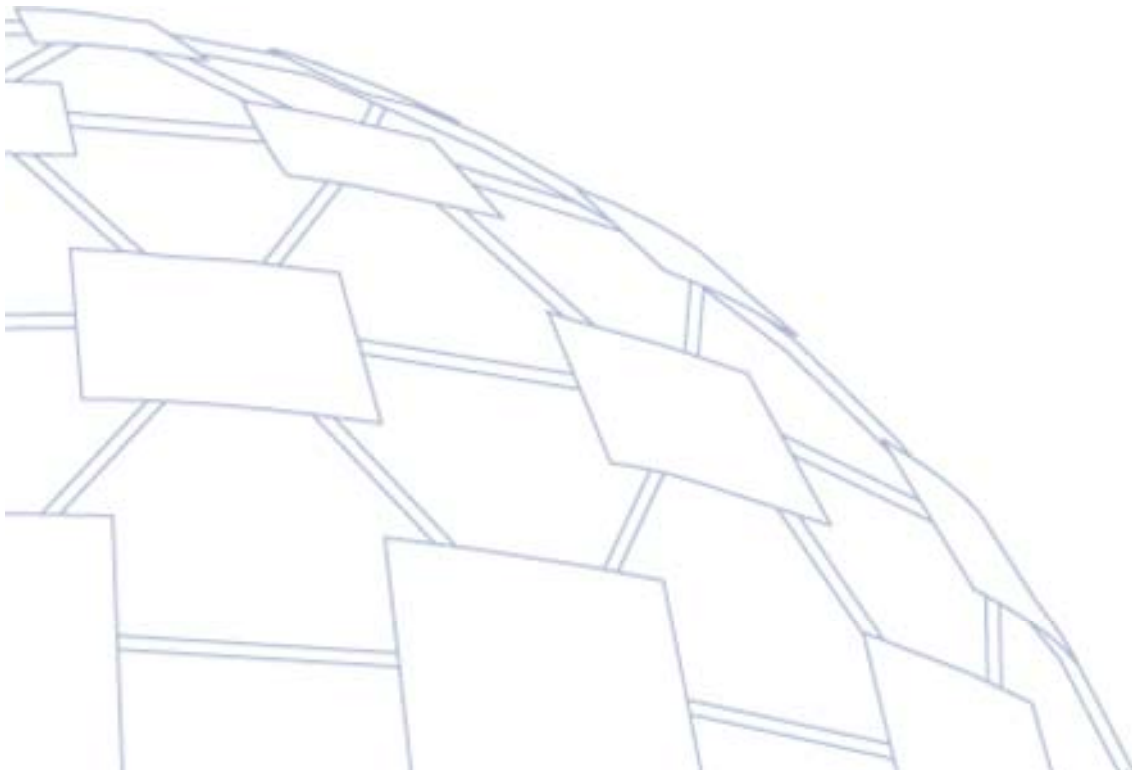


DemandTec White Paper

The State of Collaboration in Our Industry
Promotion Collaboration Survey
Executive Summary

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Introduction

Collaborative trade promotion optimization aligns priorities between retailers and manufacturers. It can deliver dramatic benefits to both parties – but it also raises the stakes.

Manufacturers and retailers that engage more of their partners in key collaborative activities report better success from their promotion efforts. For manufacturers, “engagement” means more freedom for the field sales force and new tools to more effectively manage and measure promotions. For retailers, “engagement” means stronger promotion planning and optimization, and improved interactions between marketing, supply chain and research.

The majority of trading partners on both sides of the table believe collaboration is important to their future success. Brand-centric manufacturers need to pay more attention to the role retailers play as the advocate for the consumer. Retailers tend to be most interested in the consumer and the category, while the manufacturers tend to be most interested in events and brands. This can cause a “disconnect” that results in less-than-optimal promotions.

The Promotion Collaboration Survey reports that both retailers and manufacturers are likely to be engaged in collaborative activities at senior officer levels. This raises the stakes for collaboration by expanding its traditional range of pricing, assortment and promotion to encompass new products, shopper marketing, targeted marketing and other strategic issues.

DemandTec and Booz & Company jointly sponsored this research study because they see their clients in the retail and consumer products industry striving to achieve a vision of greater collaboration and mutual benefit. Their vision introduces new ways of thinking about trading partner collaboration on promotional activities, and highlights the crucial value of optimization techniques for event planning, execution and evaluation

Summary and Key Insights

The Promotion Collaboration Survey is the first known to address trade promotion optimization and collaboration. In contrast with prior studies that focused on trade promotion management systems, the survey includes input from both retailers and manufacturers.

The study objective was to gain insight into current state of collaboration between manufacturers and retailers – primarily in the fast moving consumer goods industry – to help foster further collaboration. Toward that goal, respondents were asked questions in the following main areas:

- What collaboration challenges do Manufacturers and Retailers face?
- How does each group view its trading partners' collaboration skills?
- What are the key benefits of collaboration to each group?

The findings yield useful insights into the present state of the industry. They offer ways that the industry can best work together to improve the impact of retail-focused merchandising and marketing efforts both in and outside of the store.

Of particular interest:

- Manufacturers and retailers are becoming increasingly interdependent
- Promotion is a key collaboration touchpoint
- Trade Optimization is the next frontier in collaborative activities
- Significant gaps remain between retailers and manufacturers around analytics and insights
- Increased collaboration can drive more effective business results

The research team grouped its findings under five headings:

- **Benefits of Collaboration**
- **Collaboration Styles**
- **Collaboration Skills**
- **Collaboration Tools**
- **Barriers to Successful Collaboration**

Benefits of Collaboration

The majority of respondents across the entire base believe collaboration is very important to their future success. Among retailers responding, 92% said collaboration was “very important” and 8% said it was “important.” Manufacturers rated collaboration as “very important” 56% of the time, and “important” 39% of the time.

Key benefits of collaboration cited by both manufacturers and retailers include not only ROI and effective promotions, but also – more broadly – revenue growth and more efficient planning. Retailers say they do a little better with most outcomes as compared with manufacturers.

At the top of the list, “More effective and efficient planning” was cited by 83% of retailers and 68% of manufacturers. “Revenue growth” is reported by 75% of retailers and 53% of manufacturers. “Reduced out of stocks” is claimed by 58% of retailers and 34% of manufacturers. In similar proportion, 58% of retailers reported “Share growth” due to collaboration, as did 37% of manufacturers. “More effective promotions” and “More efficient new product introductions” are reported by half of both retailer and manufacturer respondents.

Though trade promotions are supposed to be mutually beneficial, retailers are much more satisfied with their performance – which is no surprise because they “win” more often than manufacturers. But the finding is still troubling, with 87% of manufacturers reporting they are “not satisfied” with their return on trade promotion events, compared with just 50% of retailers.

Collaboration Styles

Manufacturers and retailers collaborate most on activities related to trade promotion. When asked to report their engagement in collaborative activities by functional area, 60% cite “Trade promotion management,” 50% on “Operations and supply chain management,” and 40% “Marketing and consumer insight.” Retailers rate the quality of these interactions as medium-high, an average of 3.4 on a 1 – 4 scale, for both trade promotion management and operations and supply chain. On marketing and consumer insight, the average rating was 3.0.

In What Functional Areas Are Retailers and Manufacturers Collaborating?

Business Function	%
Trade Promotion Management	60%
Operations & Supply Chain Management	50%
Marketing & Consumer Insights	40%

To understand the impact of variation in collaborative style, retailer and manufacturer respondents were categorized into two groups based on their responses – more and less collaborative. Comparing responses across these two groups revealed several interesting findings.

Retailers

“More collaborative” retailers are defined for purposes of this analysis as those who report sharing customer store-level data with vendors representing at least 33% of sales. “More collaborative” manufacturers are defined as those who review trade promotion analytics with customers representing at least 33% of sales.

Retailers that report themselves as more collaborative are substantially more satisfied with the results they get – both tangible and intangible. On the tangible side, 100% of more collaborative retailers report “More effective promotions”; a benefit cited by 0% of the less collaborative retailers. More collaborative retailers also reported share growth with double the frequency of less collaborative retailers – 83% versus 40%.

Regarding collaboration benefits considered intangible, more collaborative retailers reported “More efficient planning” and “Better working relationships” with greater frequency than less collaborative retailers. The most dramatic differences, however, were for “Improved customer service,” cited by 50% of more collaborative retailers versus 0% of less collaborative companies, and “Improved customer loyalty” (67% versus 20%).

Additionally, more collaborative retailers report they are making more progress towards forecasting cannibalization and category effects of events. They indicate they receive more help with display implementation and in-store execution. They also receive more real time demand forecasting support from manufacturers and more support in the analysis of store level auto replenishment data.

More collaborative retailers say they are implementing more tools to help plan promotion events and have been more successful at using data for targeting offers. They report a higher level of data mining tool implementation for store level data, household purchase tracking, and pricing optimization. In addition, they are much more likely to employ predictive modeling, promotion tactic selection and post event analysis software.

Manufacturers

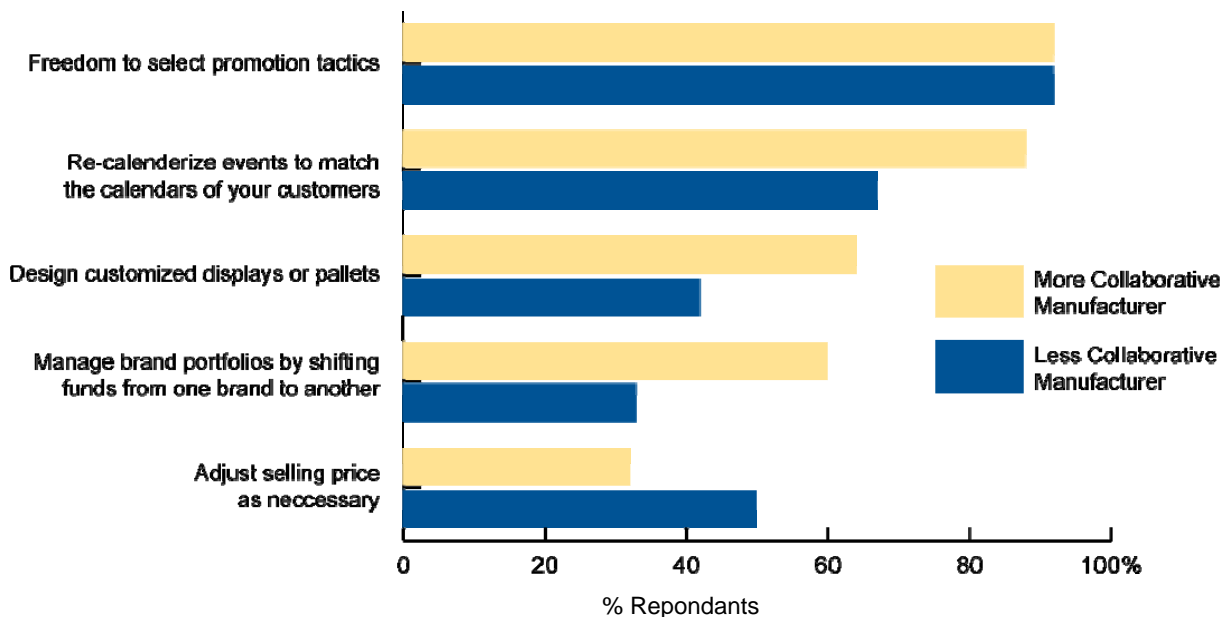
Manufacturers that have more collaborative relationships with their retailers are dramatically more efficient at new product introductions. Among more collaborative manufacturers, 63% report improvements in this area, versus just 9% of less collaborative manufacturers.

More collaborative manufacturers decentralize decision making and allow their field organizations more flexibility to meet retailer program requirements (except for pricing). When it came to decision making authority for trade promotions typically granted to the sales force, more collaborative firms are significantly more likely to grant their people authority in several areas. More collaborative manufacturers permit sales teams to reschedule events to match the calendars of customers with 88% frequency, versus 67% for less collaborative. For the authority to “Design customized displays or pallets,” 64% of more collaborative firms give this authority, compared with 42% of less collaborative companies. Finally, more collaborative manufacturers are about twice as likely to extend authority to permit their sales teams to “Manage brand portfolios by shifting funds from one brand to another,” cited by 60% versus 33% of less collaborative firms.

Additionally, more collaborative manufacturers say they are achieving improved customer service, more effective promotions, better working relationships with their partners and have a better focus on their goals. They indicate they made more progress in optimizing price and have more access to data for enhanced offer targeting.

More collaborative manufacturers also report they provide more execution support for merchandising and in-store displays, as compared with less collaborative manufacturers. They are more likely to use predictive tools to choose promotion tactics, and feel that they will need better tools and increased resources to work with their growing data flows. They feel that data availability and quality are not significant barriers to success.

How Are Manufacturers Collaborating Today?



Collaboration Skills

Overall, both retailers and manufacturers rate the effectiveness of their partners' skills for supporting collaboration as inadequate. Respondents were asked to rate partner's abilities on a list of skill areas using a 1 to 3 scale, where 1 signified "not effective," 2 signified "somewhat effective" and 3 signified "effective." No average score exceeded 2.2 on this scale. Lowest rated overall were partners' ability to "Identify implementation issues (out of stocks, etc.)", with retailers giving manufacturers an average rating of 1.6 and manufacturers giving retailers an average rating of 1.8. Results were only slightly higher for "Plan a promotion event considering category impact" (1.9, 1.8) and "Identify the implications of category strategies at shelf," (1.8, 1.9).

Least negative ratings for this question were for "Relate promotion events to the goals of your partners," with retailers giving manufacturers an average 2.2 rating and manufacturers giving retailers a 1.9. For "Understand the ROI for a proposed event," retailers give manufacturers an average 2.1 rating and manufacturers gave retailers a 1.7.

Evident gaps exist between the skills that manufacturers and retailers value the most and their partners' performance as seen in the following results:

Retailers Rate Manufacturers

"Understands the ROI for a proposed event" earned a 2.6 average importance rating from manufacturers on the 1 to 3 scale, but they rate their retailer partners' performance at 1.7. "Forecast consumer and warehouse demand" earned a 2.5 average importance rating from manufacturers, but they rate their retailer partners' performance at 1.9. Manufacturers rate "Relate promotion events to partner goals," a 2.4 average importance, but they rate their partners' performance at 1.9. Finally, when it comes to the ability to "Identify the implications of category strategies," manufacturers assign a 2.4 in importance rating but give retailer performance an average rating of 1.9

Manufacturers Rate Retailers

"Forecast consumer and warehouse demand" earned a 2.7 average importance rating from retailers on the 1 to 3 scale, but they rate their manufacturer partners' performance at 1.9. "Evaluate the effectiveness of a completed event" earned a 2.7 average importance from retailers, but they rate their manufacturer partners' performance at 2.0. Retailers rate "Understand the category impact of a proposed event" a 2.6 average importance, but they list their partners' performance at 1.9. Finally, when it came to the ability to "Understand the ROI of a proposed event," retailers assign this a 2.5 importance rating but give manufacturer performance an average rating of 2.1.0.

Collaboration Tools

At least one respondent in four has adopted "forward looking" predictive analysis applications to support their collaborative promotion activities. However, "backward looking" post-event analysis tools are still more broadly used (i.e., "using a rear-view mirror"). Asked about their current use of tools to help plan, optimize and measure promotions, both retailers and manufacturers cite spreadsheet-based post-analysis with greatest frequency. Among manufacturers, 87% indicate they used these tools, and 75% of retailers said the same.

Post-event analysis systems are also cited relatively often, with somewhat lesser frequency than spreadsheet based tools. Manufacturers indicated they use these systems with 63% incidence, versus 42% of retailers.

By comparison, only a minority of both manufacturers and retailers report the use of predictive tools to forecast promotion outcomes. Less than a third, 29%, of manufacturers said they use such systems, and just a fourth, 25%, of retailers.

Barriers to Successful Collaboration

Both manufacturers and retailers maintain that a bias towards established promotion tactics and a tendency to preserve the status quo are among the most formidable barriers to success. “Bias towards established promotion tactics” is cited by 67% of retailers and 60% of manufacturers asked to identify barriers to successful collaboration.

Retailers also cite “Promotion proposed by partner not aligned with own goals” 67% of the time, and “Inadequate time to review previous events” with 58% frequency. By comparison, manufacturers cite “Insufficient data” most often, with 68% frequency, and “Inability to measure execution in store” 57% of the time.

Research Methodology

The DemandTec/Booz Allen Promotion Collaboration Survey findings are developed from Web survey responses from 54 unique respondents at consumer packaged goods manufacturers and retail companies. Coogan & Partners conducted the study during August 2007, drawing on members of TPMA and clients of DemandTec and Booz Allen. The sample included 13 retailers and 41 CPG companies. The survey consisted of 25 questions and required about 20-30 minutes to complete. Taken collectively, the base reflects a substantial representation of the entire domestic grocery industry – 40% of the retailer ACV and 55% of the manufacturer ACV.).

About DemandTec

DemandTec (NASDAQ: DMAN) enables retailers and consumer products companies to optimize merchandising and marketing decisions, individually or collaboratively, to achieve their sales volume, revenue, and profitability objectives. DemandTec software services utilize DemandTec's science-based software platform to model and understand consumer behavior. DemandTec customers include more than 140 leading retail and consumer products manufacturers such as Advance Auto Parts, Best Buy, Circle K Stores, ConAgra Foods, Delhaize America, Dr Pepper Snapple Group, Giant-Carlisle, H-E-B Grocery Co., Hormel Foods, Monoprix, Safeway, Sara Lee and Tyson Foods. Connected via the DemandTec TradePoint Network™, DemandTec customers have collaborated online on more than one million trade deals. For more information, please visit www.demandtec.com.

About Booz & Company

Booz & Company is the oldest management consulting firm still in business, the first to use the term "management consultant," and the only firm to be a top-tier provider of consulting services in both the public and private sectors around the world.

In 1914, our founder, Edwin Booz, began conducting business research and solving problems for clients near his native Chicago. For nearly a century, we have helped our clients realize the essential advantage needed to survive, thrive, and win. In 2008, we separated our operations from our U.S. Government consulting business, which retains the name Booz & Company. We continue our work with businesses, governments, and organizations around the world, now under the name Booz & Company.

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