



# **Promotions Planning for Supply Chain Planning**

A QAD Leadership White Paper  
Promotions Planning for Supply Chain

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# PROMOTIONS PLANNING FOR SUPPLY CHAIN PLANNING

## INTRODUCTION

Trade promotions have always been murky water. Manufacturers give millions of dollars annually to retailers in the form of slotting fees, sample and trial items, reverse logistics fees, new stores fees, introductory allowances, volume pricing discounts, and promotions to end-consumers. This money is spent to drive bottom-line ROI, improve customer loyalty, build stronger sales channels, and execute market share strategies. So, how can a manufacturer accurately determine the impact on the supply chain, and analyse the return on investment, before committing to a promotions event? It all starts with a comprehensive promotion plan.

Promotion Planning success depends upon:



When embarking on a promotions planning exercise, there are several dimensions of the planning process that should be considered.

## THE SCOPE

Retailers often see promotions through the lens of the consumer. Their focus is on the products, being promoted for the duration of a promotion. Retail success is often measured by sales uplift, alone. Manufacturers do not have this luxury, and need to think more laterally than a Retailer. Manufacturers plan for full impact of a promotion, which also requires managing the unintended promotional impact, on the wider product portfolio, not only those items being directly promoted.



Manufacturers measure the potential cannibalisation of product sales from similar-use, non-promoted products. For example, if a 1Kg packet of laundry detergent is promoted, it may reduce the demand for the 5 Kg pack of the same brand, which is not promoted. There are many complex examples of product-cannibalisation. Understanding the product-cannibalisation effect, requires analysing sales promotion history, and identifying correlating sales trends across different products. It is rarely an obvious change in pack-size.

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The ability to consider the halo-effect, where a non-promoted product is positively impacted by the sale of a promoted product, is also important. If a paint manufacturer promotes a certain type of paint, then there may be increased demand for undercoat or sealer. Halo-impact planning often affects distributors, more than manufacturers, as the halo product is often sourced elsewhere. For example, a paint manufacturer promotes paint, and the paint-brush manufacturer incurs a demand spike. Like product-cannibalisation, Impact of the halo effect may be predicted by analysing historical sales data, and performing correlation detection analysis.

Manufacturers understand the promotions impact on the full planning horizon, beyond the sell-in dates. Promoted products often show reduced demand, for several sales days before and after promotion. Manufacturers determine the self-cannibalisation behaviour of promoted products, that occur outside of the sell-in dates, and then factor it into the total demand plan.

Failure to manage cannibalisation and halo effect impact, may lead to unforeseen demand signals in the non-promoted product range. This causes unnecessary firefighting, by production and material planners, to meet service levels when they are busy executing a promotion.

On the flip side, the ability to accurately plan the full impact of a promotion has wide-reaching benefits that propagate through the supply chain. Manufacturers with accurate visibility of promotions-impact, may plan production, procurement, warehouse and distribution capacities, as well as the additional labour required to manage the promotion.

## MEASURE PROMOTIONS PERFORMANCE

Manufacturers do not measure promotions success by solely analysing the uplift quantity against the rebate or price reduction. It is important to analyse the financial impact across the product portfolio, and across the planning horizon.

The correct metric to measure promotions activity depends on the promotions strategy. For new markets and new product launches, market share growth is important. Financial stakeholders focus on revenue, sales budget achievement, and profitability. For sales and marketing, promotions ROI is important. Regardless of the metric, promotions performance is measured by comparing a baseline (no promotion) plan to a promoted plan.

Baseline plans are well defined using traditional demand planning techniques, such as statistical extrapolation and demand sensing. However, many manufacturers struggle to easily generate a historical sales baseline. The historical sales baseline is an important value to truly understand the promotions value-add. It is also an important input to statistical and machine learning techniques to improve the accuracy of statistical forecasting and budgeting. Advanced demand planning solutions offer a range of methods to solve this problem, such as pro-rating gross sales volumes against the baseline component of the demand plan. This approach effectively negates the “intended promotions impact” from the gross sales values to automatically determine a historical sales baseline. Many notorious supply chain disaster stories arise from a manufacturer’s inability to determine a historical sales baseline. This includes the infamous green Volvo saga, which led to increased production of an obsolete item. This would not have happened if Volvo had projected future sales on a historical sales baseline instead of on gross sales.

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## PROMOTION PLANS ACCURACY

Like all components of a supply chain plan, promotions plans must be as accurate as possible. Practitioners often see promotions planning, as an art, rather than as a science. Which products will be impacted? Precisely, what is the impact, and when will it occur? Traditionally, this was done by guessing consumer response to a given incentive or message.

Modern, super-connected supply chains provide more data, from more sources, more often to measure promotions behaviour. If the data is the fuel, then analytics is the engine to convert consumer behaviour into accurate insights, of how a specific promotion will behave in the future. The pattern matching and profile capabilities of machine learning algorithms are capable of generating a weekly profile of sales behaviour before, during, and after a promotion. This includes promotional sales profiles, but also cannibalisation and halo effect sales profiles. It is sensitive to the customer, the region, the event, and the type of promotion.

## AGILITY & VISIBILITY

Modern digital supply chains move fast, and include promotions activities. Agile planning requires strong connectivity and visibility, to ensure the plan may respond to unforeseen demand and supply signals. Visibility requires a single promotion control-tower or active-dashboard experience where all promotions may be plotted against a timeline, allowing smart signalling to describe the status of the promotions landscape. Promotions planners require a single dashboard experience to rapidly visualize;

- Promotions by brand, promotion type, event, customer, or region.
- Competitor promotional activity.
- Risks and Alerts that impact supply or demand.

- Analytics such as revenue, uplift, profit and return on investment.

In addition to the visualization of the landscape, the planner needs to be able to simulate and compare multiple promotions strategies to determine the most appropriate approach for the current plan.

## CONNECTIVITY

Although electronic promotions data transfer between manufacturers and retailers is not new, it continues to be a challenge for manufacturers, as the frequency of data exchange, and the depth of content increases. This creates a range of problems for manufacturers.

Different retailers use varying formats to exchange promotions data with manufacturers. Manufacturers require a low cost-of-ownership planning solution that may rapidly adapt to the retailers.

The promotions information transmitted by a retailer to a manufacturer is often incomplete, requiring planner intervention to validate, and approve a promotion. Retailers send various promotions, updates, and deletions requiring ongoing data maintenance by the manufacturer.

Some retailers send all promotions data, including data from other manufacturers, (i.e. competitive promotions data). This is useful information for defensive marketing tactics and needs to be considered accordingly.



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## SUPPLY CHAIN & PROMOTIONS COLLABORATION

Supply chain collaboration techniques have evolved enormously, in recent years, to provide a more inclusive yet targeted approach to harnessing stakeholder intelligence. The use of workflow and exception engines combined with conversational analytics and natural language ensures informed stakeholders are making fact-based decisions. This has effectively bridged the chasm between retailers and manufacturers, providing near real-time closed-loop data, and process synchronisation. This ensures retailers and manufacturers are using a single set of numbers to make consensus decisions in the same time frame.

However, promotions collaboration equally applies to the internal functional silos that contribute vital intelligence to the promotions planning solution. Warehouse and logistics need to be aware of stock build activity that may occur before the promotions sell-in dates. This especially applies to promotions that use a substitution SKU to promote using specific labelling or pack configurations. Warehouses need to allocate new bin locations and advise pick-staff accordingly.



## STRATEGY ALIGNMENT

A trade promotion is just one brick in the total trade spend strategy. Planners need to visualize the impact of a specific promotion against the entire strategy, not just as a stand-alone initiative. Perhaps, there may be promotions overlap when a category or customer is impacted by multiple potentially conflicting events. Perhaps, there are gaps in the promotions calendar during key events. Does the planner have sufficient visibility of competitor's promotions activity to gauge the impact and mitigate effectively? Promotions planning is hard enough without competing against yourself.

## SUPPLY FEASIBILITY

A core problem, of traditional promotions management, is the sole focus on demand and finance at the expense of upstream logistics. It is not possible to develop a comprehensive promotions strategy, without the sponsorship of production and procurement. Perhaps, there may be planned maintenance that may reduce production capacity, during a promotion. Perhaps, there is a new label or pack configuration of the promoted products. Promotions planning should be synchronised with the supply planning, at all stages of its life-cycle, from draft to execution. Failure to achieve this is what led to the infamous Hershey's Halloween event. This synchronisation may only be truly achieved when promotions, demand and supply planning exist within the same supply chain model. A single supply chain model enables intelligent exception management to automatically alert promotions strategies, which carry excessive supply risk.

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## LIFECYCLE PLANNING

Many promotions ideas end up on the cutting room floor. In some cases, less than 10% of promotions concepts will ever progress to execution. This is by design, to offer multiple promotions options to planners. Without smart planning, this may consume significant resources to define and validate promotions data sets. Planning processes focus on the lifecycle of a promotion with the knowledge that many may never proceed past a draft. Lifecycle planning requires a structured process control mechanism, such as workflow or task list management, to progress the promotion through the stage gates.

## CONCLUSION

With trade promotions, every dollar spent on promotions or to settle claims is coming straight out of profit. Many manufacturers invest in ERP and TPM (trade promotion management) solutions that focus on the financial transactions generated by the small number of promotions that make it to execution. However, for a long time, there has been a crucial missing link in the promotions planning process leaving a long list of unanswered questions.

- Which promotions strategy is the most profitable?
  - Which gives the largest market share?
  - Which best defends against the competition?
  - Which has the least risk from a supply perspective?
  - Which are feasible from a trade-spend perspective?
- Investing in a comprehensive supply chain planning solution with native promotions planning capabilities may increase effectiveness with better planning, smoother execution, and improved visibility into promotion performance. This will launch the right promotion at the right time, every time.
- How do different promotions strategies impact supply capacities?
  - How do the promotions strategies impact the S&OP process?



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