

Winning with Promotions Industry Report



ECR AUSTRALASIA

“The meeting place for retailers and suppliers focussing on supply chain efficiency.”

Efficient Consumer Response Australasia (ECRA) is the only industry body that brings together suppliers and retailers/wholesalers to promote industry-wide initiatives in the supply chain that deliver benefits to the industry and the shopper.

In doing so, ECR best practices will deliver superior business results by reducing costs at all stages throughout the value chain, achieving efficiency and streamlined processes. Such practices can deliver improved range, consumer value, sales, service and convenience offerings. This in turn will lead to greater satisfaction of consumer needs.

ECR Australasia reflects a commitment to take costs out of the grocery supply chain and better satisfy consumer demands through the adoption of world's best practice. In an increasingly global food and grocery industry and a retail environment subject to rapid change, the future for Australian and New Zealand suppliers, retailers and wholesalers depends on increased efficiencies, reduced costs and added value for consumers.

ECRA has had a focus on driving improvements to on-shelf availability for many years. In 2001 ECRA developed *A Guide to Efficient Replenishment and Reducing Stock Outs*. The objective of the guide was to provide a useful reference point for companies to improve replenishment and product availability.

In 2008 the Board commissioned a survey of industry aimed at reporting on the current status of On-shelf availability (OSA) levels and the adoption of the 2001 report recommendations, *The OSA Challenge*.

The 2008 report acted as a catalyst to further work completed in 2009 which provides companies with a framework, both for their organisation and with trading partners to address out of stocks (OOS), *The On Shelf Availability Roadmap*.

During 2009 the focus was narrowed to a specifically Australian issue of product availability during the month of January, with a series of publications under the banner *Winning in January*.

This year we have turned our attention to promotional availability.

For more information about ECR Australasia, visit www.ecraustralasia.org.au

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REPORT ENDORSEMENT

“One year from now, we need to be considered better than we are now at promotional planning, execution and evaluation. We took the first step on Wednesday 8 September when the industry openly discussed improvement areas. We listened, we learnt and we are making changes. I encourage you all to use the Winning with Promotions Industry Report, examine your businesses processes and work with us to deliver excellent on-shelf availability for promoted products.”

Matt Swindells,
General Manager Replenishment, Coles Group.

“I recommend the Winning with Promotions industry report. Metcash’s business model means we have to work together to find clever ways to plan, execute and evaluate promotions. The report provides an excellent first step and we will be using the industry feedback to guide our progress.”

Gary Tempamy,
National Group Manager Merchandise and Marketing, Metcash Trading

“Woolworths has a very strong focus on promotional planning, execution and evaluation. The key to further improvements is detailed planning and collaboration. To maintain the momentum we need to examine the industry level findings from the Winning with Promotions industry report, have the dialogue; understand your perspective and you need to understand ours. We need to work together to deliver an exceptional on-shelf availability for our shoppers.”

Peter Elms,
Head of Replenishment Food and Liquor, Woolworths Ltd.

ACKNOWLEDGEMENTS

The *Winning with Promotions* program was launched in early 2010 and many consumer goods manufacturers, suppliers, retailers and wholesalers have participated and contributed significantly to the development of this report. The time and work given freely by the participants from those companies have ensured that the findings are truly representative of the Australian grocery industry and provide a very real insight into the issues and potential solutions.

We would therefore like to thank the following people for their contribution.

Wendell Rumbell	Arnott's Biscuits Ltd
Ian Bell	Cadbury Pty Ltd
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Paul McShane	Cadbury Pty Ltd
Brent Mate	Cadbury Pty Ltd
Edward Hassall	Cadbury Pty Ltd
Ross Tricklebank	Cadbury Pty Ltd
Joseph Freeman	Coca Cola Amatil Ltd
Hoss Matar	Coca Cola Amatil Ltd
Alev Seyit	Coles Group Ltd
Karly Georgiou	Coles Group Ltd
Helen Shaw	Don KRC
Eloi Marchyllie	Frucor Beverages (Australia) Pty Ltd
David Ashton	General Mills Manufacturing Pty Ltd
Dene Brosnan	HJ Heinz Company Australia Ltd
Elkin Jackson	HJ Heinz Company Australia Ltd
Jonathan Biddle	Johnson & Johnson Pacific Pty Ltd
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Adam Arnold	Metcash Trading Ltd\
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Darren Fitzgerald	Nestle Australia Ltd
Sean Toomey	Sara Lee Australia
Jackie Peebles	Sara Lee Australia
Adam Keech	Schweppes Australia Pty Ltd
Nicholas Frith	Schweppes Australia Pty Ltd
Nadege Morrey	Schweppes Australia Pty Ltd
Shannon Luck	Schweppes Australia Pty Ltd
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Richard Hinson	The Wrigley Company Pty Limited
Steve Mitchell	Unilever Australasia
Justin Henderson	Woolworths Limited

In addition we would like to thank those individuals and organisation who provided data and information via the survey and those who attended the industry level workshop. This work could not have been completed without their valuable insight.

Finally we would like to record our appreciation for the project Secretariat.

Samantha Blake, Australian Food and Grocery Council
Efficient Consumer Response Australasia

John Cawley Australian Food and Grocery Council
Efficient Consumer Response Australasia

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EXECUTIVE SUMMARY

Improving the availability of products on-shelf provides a sizeable opportunity for both retailers and suppliers to better meet the needs of their customers and in doing so to maximise sales and profits.

Out of stocks (OOS) in Australia are estimated to be at least AUD \$3.2 billion but most likely closer to AUD \$5.8 billion.ⁱ Promotions play a significant part of the Australian retail landscape with the number, depth and frequency of offers reaching critical levels and driving shopper behaviour.

Global data suggests that OOS levels for promoted items average between 9% and 11%. This figure is significantly higher than for non promoted lines. The poor performance destroys the benefits the promotion is expected to bring. Great effort is expended to draw shoppers into the store but in many cases, the promise made to shoppers cannot be fulfilled.

By increasing demand, promotional activities magnify and intensify the effects of supply chain challenges. There will be continued pressure to promote due to the highly competitive nature of the industry and this in turn leads to demand volatility and variability. To respond to the challenges and deliver improved on-shelf availability on promotion, the industry needs to work collaboratively to find ways to maximise responsiveness and flexibility across the value chain.

Tagged, *Winning with Promotions*, the work activity undertaken throughout 2010 aimed to provide a fact based platform to industry serving as a basis to facilitate improvements to promotional on-shelf availability (OSA).

The work included three core components:

- Industry Survey – aimed at identifying the main challenges to promotional availability through an industry wide on line survey, incorporating maturity scores for retail supply chain components.
- In-store Analysis – aimed at providing a fact base on availability for promoted lines across a range of products, categories, stores, locations and times.
- Industry Workshop - Retail specific workshops aimed at presenting industry results from survey and in-store findings, host discussion on retail specific root causes, key issues, pressure points and facilitate discussion on resolution and best practice.

Each business's approach to promotional OSA differs based on a range of factors such as its business model, maturity, capability and partnerships. The following five key considerations, output of the three core work components, will need to be assessed against these factors.

1. Normalise Promotions
2. Responsive Promotional Capability
3. Capacity Integrity
4. Autopsy data and information
5. Inform Promotions

1. Normalise Promotions

Over 54% of product is sold on promotion in Australia and in some product categories this can be as high as 80%. The disruption through the supply chain for promoted products is massive; the rhythm of the supply chain changes when a product is on promotion.

Organisations need to consider promotions as the norm and develop capability accordingly.

2. Responsive Promotional Capability

Increased competition, greater reliance on promotional strategies and compressed time horizons are some of the reasons making the planning, execution and evaluation of promotions a complex proposition. Furthermore recent economic conditions have affected shopper behavior and led to increased demand, volatility and variability.

Whilst it is essential to ensure promotional volume and forecasts are based on a single number communicated through the business it is equally important to understand trading partners capabilities and limitations. Changes to requirements prove a greater challenge to suppliers than to retailers, this is not unexpected given that such changes are more likely to originate from the retailer and the suppliers will be limited by certain product constraints and lead times.

In our highly competitive industry there is a requirement to formalise processes for amending and communicating changes to the single number and to develop contingency plans to manage late changes.

3. Capacity Integration

Whilst it is essential to focus on a single number it is equally important to ensure the business can deliver against the forecast number. There has perhaps been a tendency for forecasts to be over optimistic, which can result in significant supply chain costs, through inventory builds and waste. In addition dramatic projected promotional uplift may result in bottlenecks at distribution centre resulting in capacity constraints for receipt and storage leading to a failure to deliver the plan.

Excellent on shelf availability for promoted products cuts across functional and organisational barriers. Ensuring capacity to fulfill the promotion at all stages of the value chain including store operations, is critical. Buy in from stores is one of the most important factors influencing the promotion. The alignment of field force teams can help ensure correct and high levels of implementation at store.

4. Autopsy data and information

The availability of data and the granularity at which the data can be made available can be an issue for trading partners seeking to optimise promotional availability, as can be the accuracy and timeliness of the data required. Whilst this should be the focus of ongoing improvement opportunities, the real imperative facing industry is to turn the data which is available into useful information for decision making, and to share it with all the key stakeholders within the business and with trading partners with alacrity.

Prioritising what data is required, who requires it and when during the promotional period it is needed is vital. In organisations, many of the critical data points are not integrated, this means significant sales uplifts may not be communicated effectively and in a timely manner. Ultimately shoppers are frustrated and sales are lost.

Provision of data and relevant information pertaining to performance metrics is also a key opportunity for industry. Established at the beginning of the promotion, and collaboratively examined at the end of the promotion, such data and metrics can highlight opportunities for future improvements to promotional capability, availability of product in the right place at the right time, and sales to satisfied shoppers.

5. Inform Promotions

Once a particular promotion has commenced (and sometimes even before this) the tendency is to move attention to the next promotion, product launch or event coming up.

Promotions do not however always run to plan. A methodology should be developed within and between businesses to track, trace and respond to the changes in immediate and short term demand. This could include monitoring daily or early trends in performance to the plan, changes to the plan including distribution and ranging, mid promotion performance, under or over achievement against promotional plan.

INTRODUCTION

For retailers and suppliers to the food and grocery industry, the formula for success is getting the right product in the right place at the right time and in the right quantity.

However, the consumer goods-to-retail supply chain has been battling the OOS problem for decades. OOS remains a huge problem in the retail food and grocery industry, but is especially true when it comes to promoted products.

Promotions play a significant part of the Australian retail landscape with the number, depth and frequency of offers reaching critical levels and driving shopper behaviour. Availability of product is also extremely important when it comes to promotions. Large amounts of time and resources are spent on advertising and product launches, yet operational execution can fail to deliver and missed selling opportunities and wasted marketing dollars are lost due to ineffective promotion.

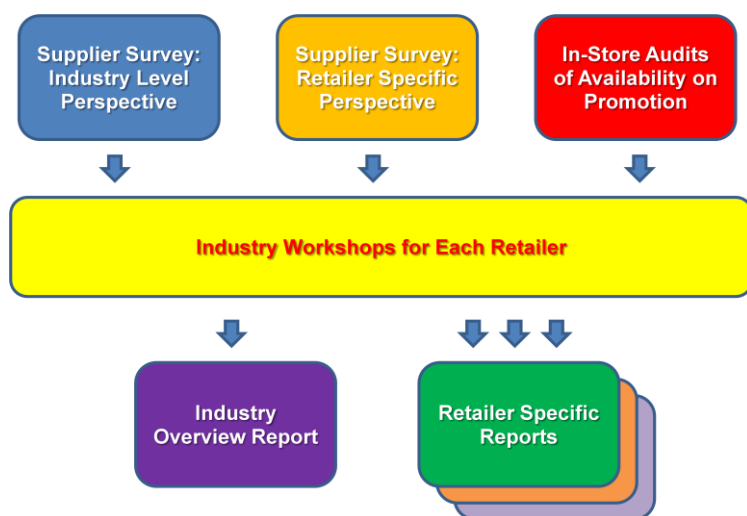
OOS are estimated to be at least AUD \$3.2 billion per year but most likely closer to AUD \$5.8 billion, and global data suggests that the promotional effect to OOS is a ratio of 2:1 promoted vs. non-promoted items.

By increasing demand, promotional activities magnify and intensify the effects of supply chain challenges. To respond and deliver improved in-store availability on promotion, the industry needs to work collaboratively to find ways to maximise responsiveness and flexibility across the value chain.

To clearly understand the issues impacting promotional OSA the ECRA Board invited the industry to participate in *Winning with Promotions* program throughout 2010. The following report details the process undertaken along with key findings and insights from the work activities.

OSA is not a problem that can be addressed through simply seeking and implementing best practice, it cuts across functional and organisational barriers; it is multifaceted with no prescriptive answers to solve complex problems. Opportunities such as the one presented through *Winning with Promotions* provide the framework for a collaborative approach to identify improvements and solutions in a sustainable fashion.

KEY WORK ACTIVITIES



A **survey of suppliers** was undertaken to establish some key facts relating to the promotional landscape and to identify the main challenges to promotional availability.

The survey also investigated respondents' perspectives in relation to the levels of maturity between their businesses and key trading partners with regards the critical promotional aspects of promotional planning, promotional execution and promotional evaluation. The respondents identified what currently hindered and facilitated each of these aspects with each retailer. There were over sixty respondents to the survey across supply chain and commercial disciplines.

The Supplier Survey was supplemented by an **In-Store Audit** which undertook extensive physical checks in 45 stores over a one week period to capture the degree of availability to shoppers of promoted lines, both on shelf and on display. Stores were checked multiple times on busy days and were across retailer, states and metropolitan/rural locations.

The information attained through both the Supplier Survey and the In-Store Audits was compiled by ECRA and flowed into three **retailer specific workshops**, where retailer/wholesalers and suppliers came together to discuss the issues both parties faced, prioritise these issues and identify potential approaches to overcome them.

The workshops were well subscribed with approximately ninety industry participants across suppliers and retailers, and across supply chain and commercial functions, working together proactively to identify opportunities and share perspectives.



The outputs from the three core components include:

- this industry level report, detailing common themes, issues and opportunities,
- retailer specific reports, describing retail specific facts, figures and findings.

Retailers will then pursue their individual opportunities with suppliers as appropriate, whilst ECRA will focus on the industry level issues.

SCOPE

Throughout the *Winning with Promotions* initiative, participants have focussed on three key aspects of promotions – promotional planning, promotional execution and promotional evaluation.



Specifically, the emphasis has been on the opportunities to improve collaboration and communication in relation to each of these three aspects.

It should also be noted that there are specific elements to promotions which are primarily commercially strategic and tactical. These have not been included in the program (or only in setting the scene for the current promotional landscape) due to their commercial sensitivity and business specific nature. These elements include such matters as:

- Whether there should be promotions
- How many promotion should we schedule
- Whether promotions are sufficiently profitable
- What promotional vehicles are most effective
- Shopper perceptions and reactions to promotions.

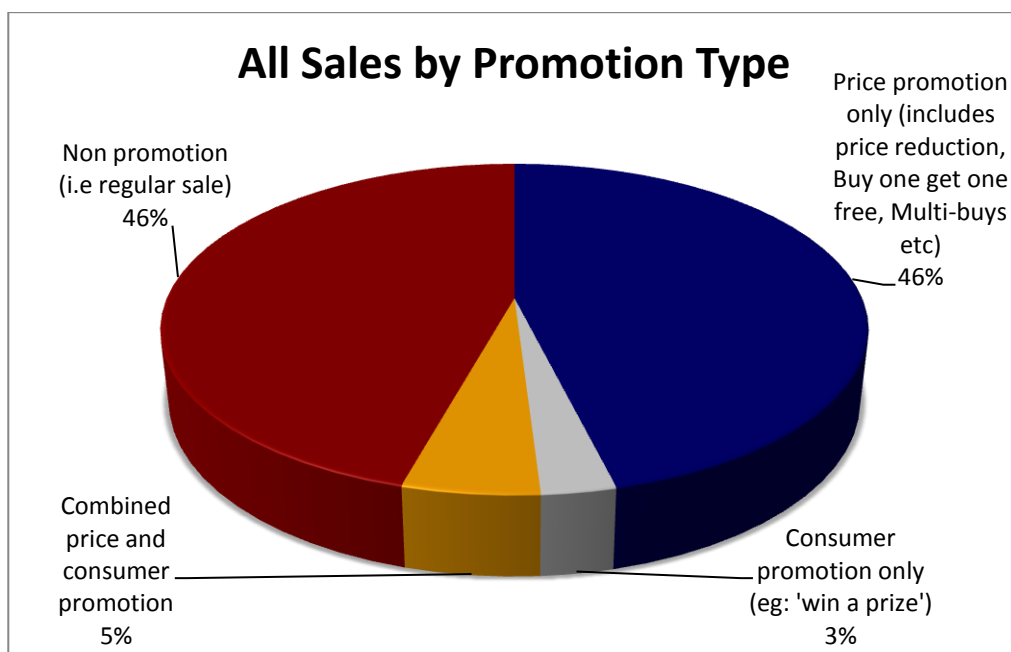
SUPPLIER SURVEY

The promotional landscape and the prevailing trends are examined, followed by industry level perspective on elements of promotional planning, execution and evaluation.

A review of results from the supplier survey undertaken in June 2010 follows:

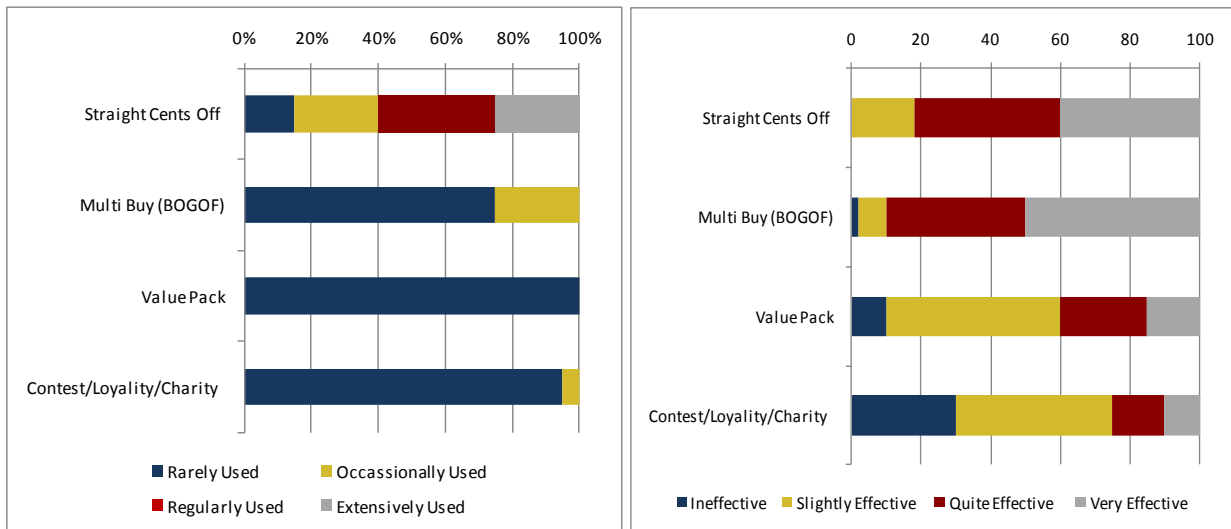
Australian Promotional Landscape

Percentage of Supplier companies total sales volume to shoppers/consumers through the retail channel (i.e. Supermarkets/Grocery Stores) by promotion types



Key Findings: A very large percentage of sales through the Australian grocery channel are made on promotion. It follows that out of stocks on promotion will have a direct and significant impact on sales and profitability

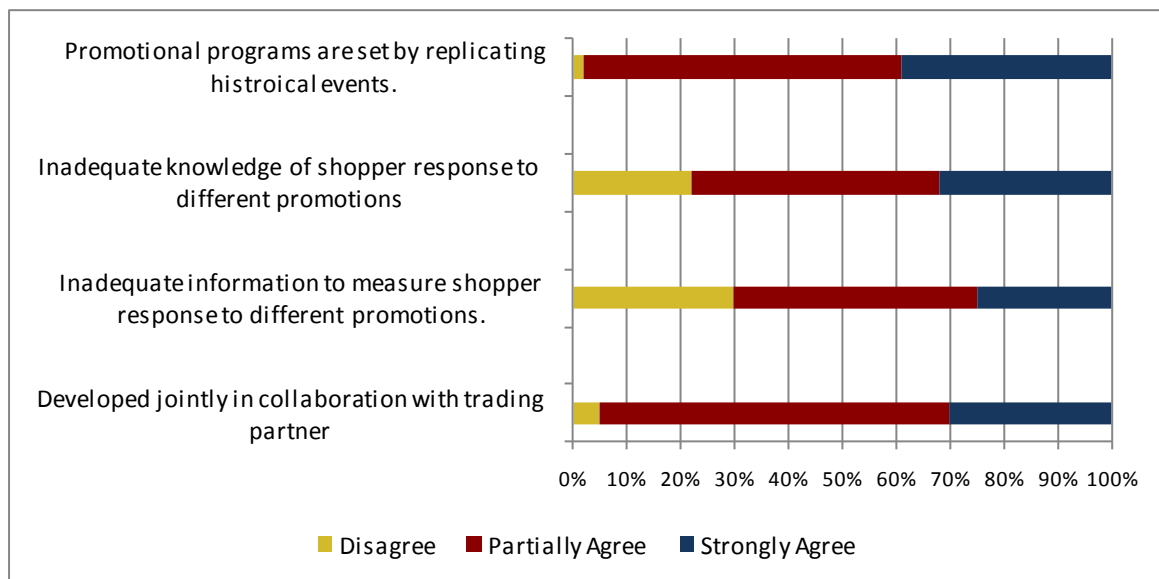
The degree to which various types of promotions are used in the retail grocery channel and their effectiveness in achieving desired business outcomes.



Key findings: Straight cents off promotions are by far the most commonly employed promotions. Multi Buys/Buy one get one free (BOGOF) promotions were rated the most effective promotion option by those who used them, with straight cents off second most effective. Value packs and non-price promotions were broadly not considered effective.

Considerations: On what basis does industry feel price discount promotions are effective i.e. sales lift? Other information received in the survey states that profitability from promotions is falling...do we understand the total profit impact/shopper value derived from all the options?

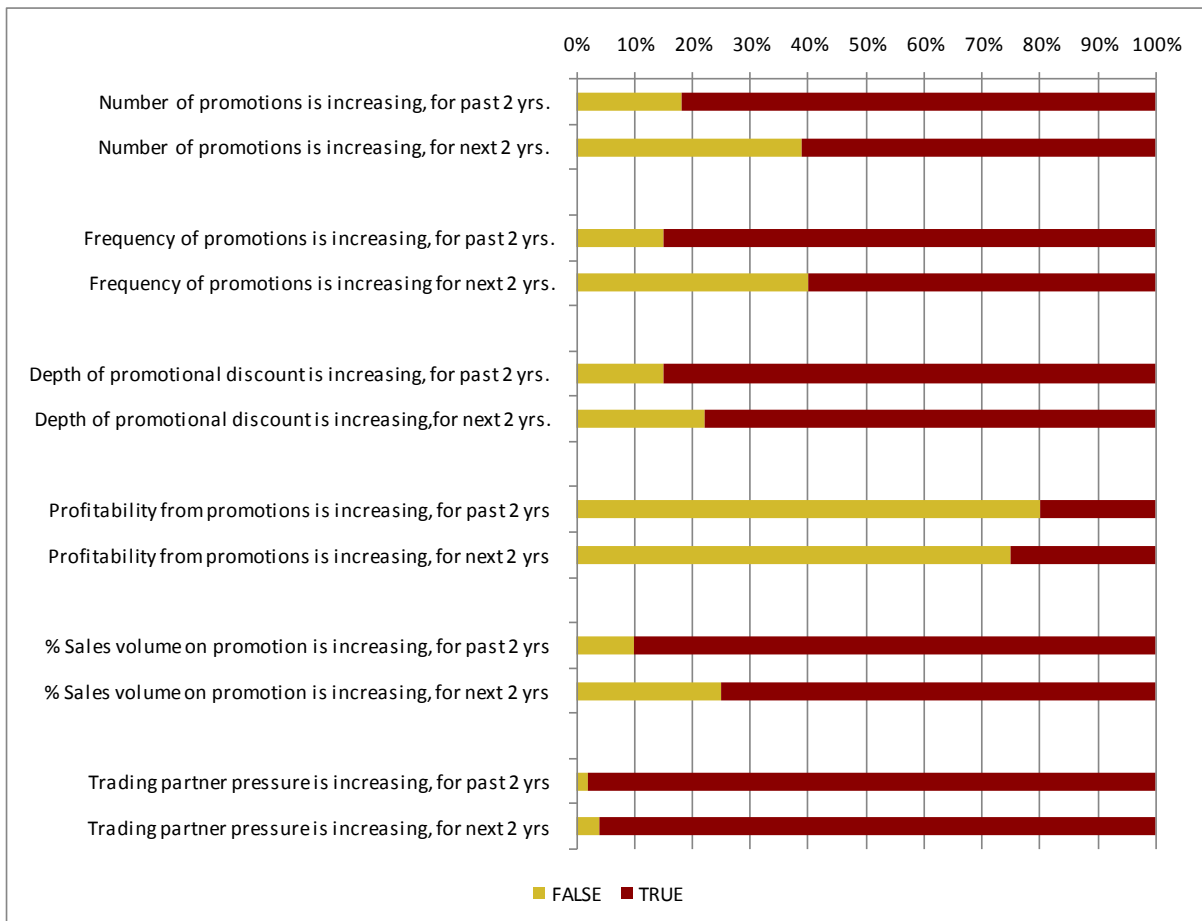
Development of promotional programs



Key findings: Thirty percent of companies strongly agree that promotional plans are developed collaboratively, and that there is adequate information to measure, and knowledge about, shopper responses to different promotional types. A quarter of companies believe promotional programs are typically a replication of historical promotional events.

Considerations: Is the industry sure that promotions are optimal and based on true shopper insight? Or if over 50% of total sales to shoppers are now on promotion, are we simply teaching shoppers just to buy more and more products only when on promotion?

Trends (current and anticipated) for promotion of major brands in supplier portfolios



Key findings:

For major brands over the past 2 years:

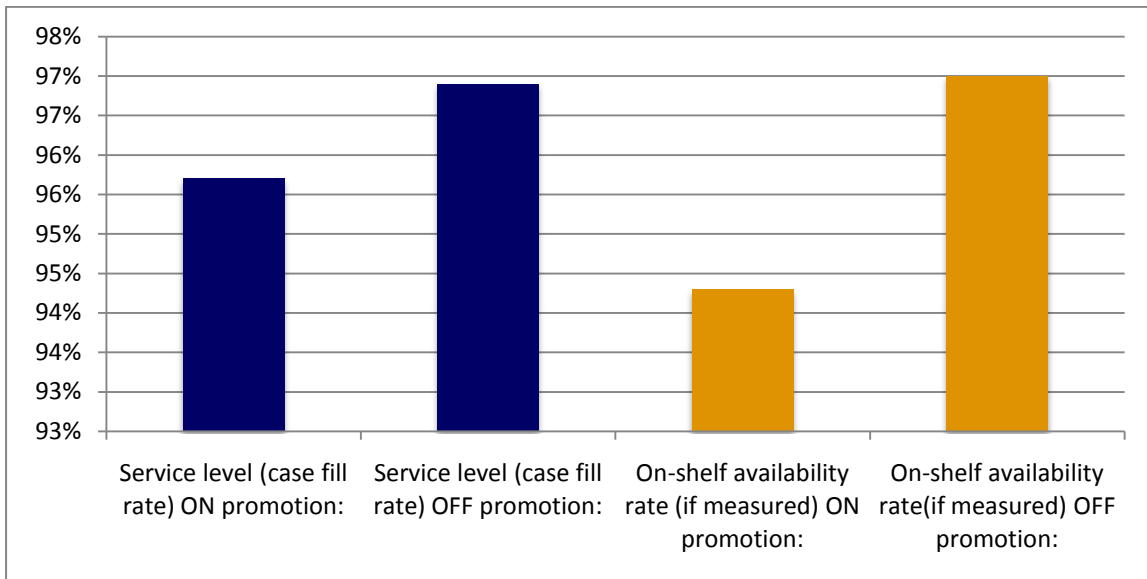
- There have been more promotions in total
- Promotions are happening more frequently
- They have a deeper discount
- They have become a larger portion of total company sales
- Retailer pressure to promote heavily on price has increased
- Promotions have lessened in profitability to suppliers

And suppliers expect every one of the trends to continue.

Consideration:

What needs to change in the approach to promotions to ensure this business model is sustainable and beneficial for the industry?

Availability rates for highly promoted brands through the major Australian retailers



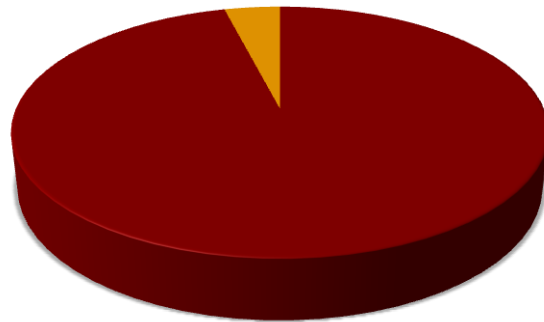
Key findings: Case fill decreases 1.5% on promotion, and shelf availability in store falls by 3% on promotion (potentially more as this was only for suppliers who measure, and therefore are likely to focus heavily on OSA)

Considerations: Both Suppliers and Retailers are struggling to provide availability to shoppers for the products they seek on promotion, this is everyone's issue!

PROMOTIONAL PLANNING

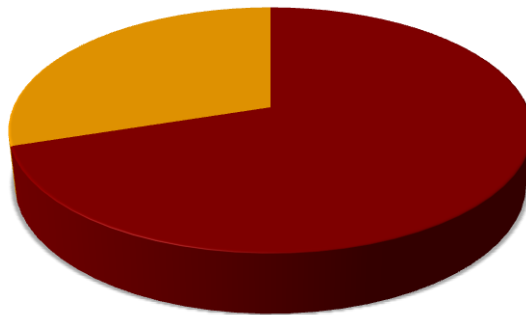


Do you use a Sales and Operations Planning (S&OP) communication and decision making process to ensure the promotional plan is supported by the operations planning processes of demand management, supply scheduling and capacity planning.



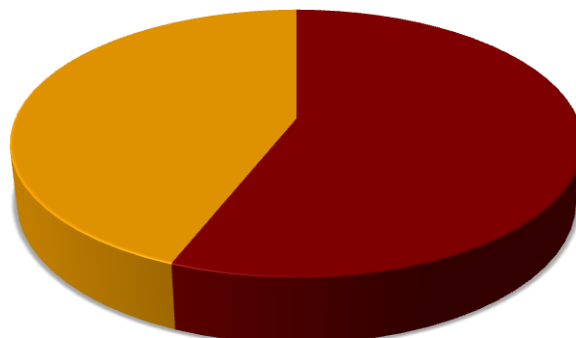
■ Yes
■ No

Are your upstream suppliers (packaging and materials) included in the planning process?



■ Yes
■ No

Do promotional plans jointly developed with trading partners provide sufficient time horizon required for your product/supply chain mix?

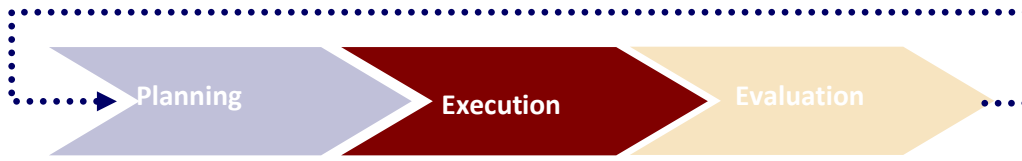


■ Yes
■ No

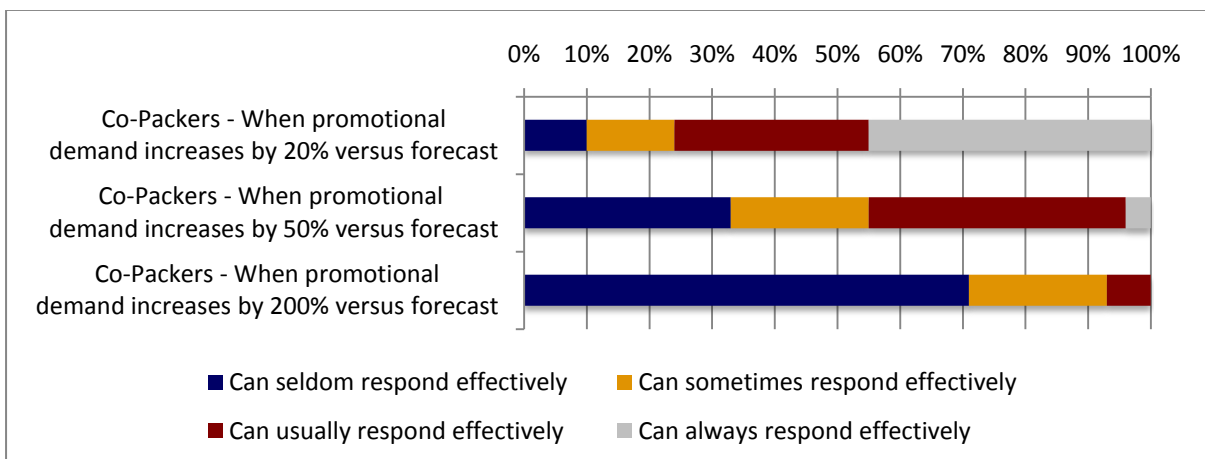
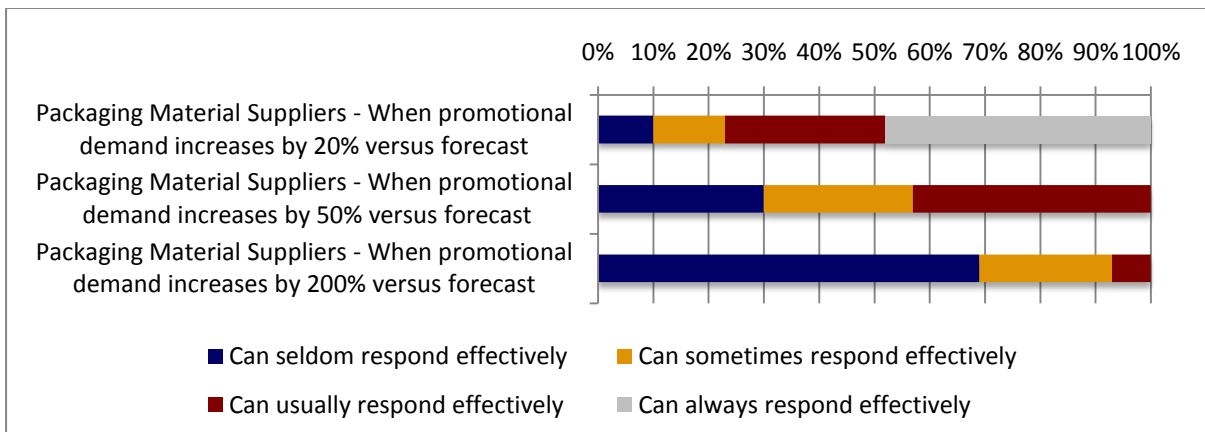
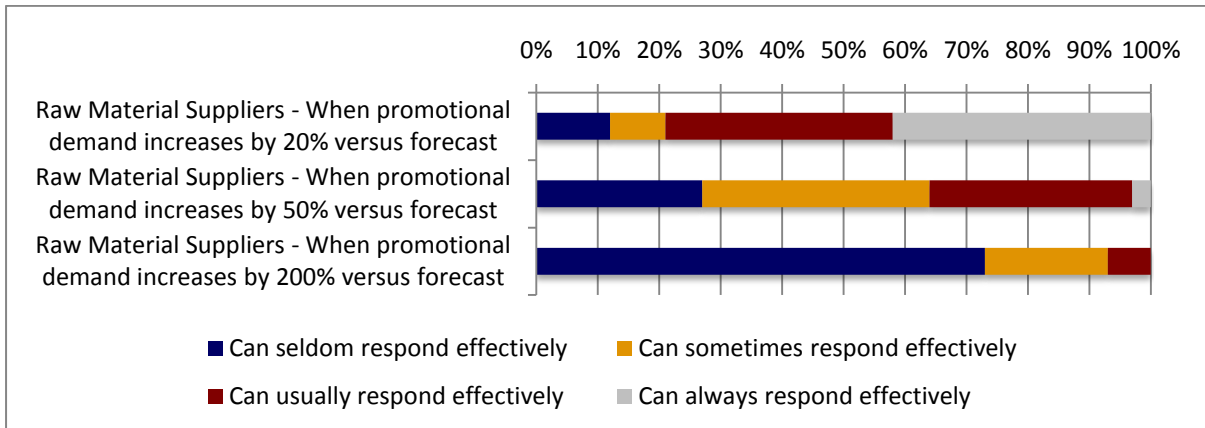
Key findings: S&OP appears to be entrenched; this suggests it is considered best practice. For 30%, the clear opportunity is to engage upstream suppliers in the process to ensure no planning slippage.

Considerations: Nearly half replied that their jointly developed plans with retailers do not provide sufficient time horizon for their supply chain to react effectively/optimally. This impacts both parties, so what changes need to be made to ensure smooth supply?

PROMOTIONAL EXECUTION



Raw material, packaging material and co-packing suppliers' ability to respond effectively when various degrees of change occur in promotional demand.



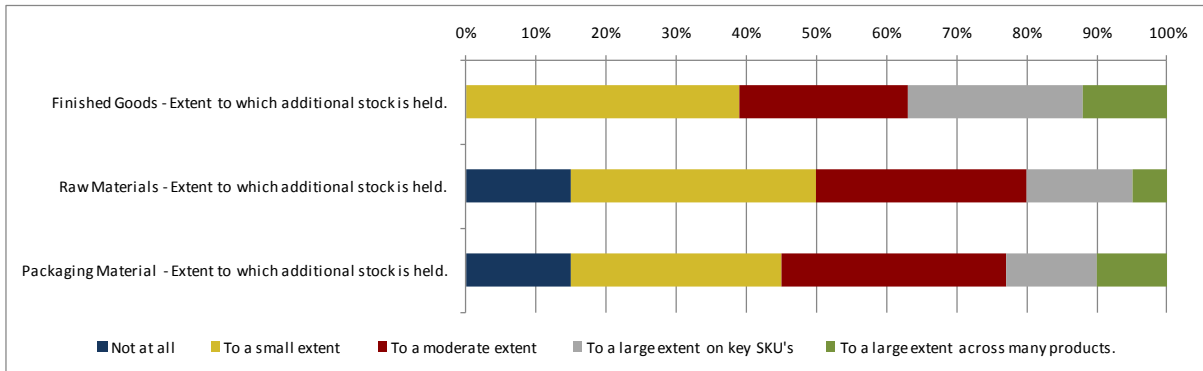
Key findings: There appears to be a tipping point for upstream suppliers. Generally for upstream suppliers a 20% increase in demand could usually be facilitated,

whilst 50% increase caused significant issues and 200% increase stretched upstream suppliers beyond their capabilities to respond in most cases.

Considerations: The supply chain does not end with manufacturers, if upstream suppliers cannot react then availability will suffer. Upstream suppliers need to be involved in promotional planning process so contingency plans can be considered.

The causes of dramatic surges in promotional demand versus forecast should be analysed between supplier and retailer after a promotional event where this has occurred, and should also be considered at the planning stage of the promotion so that retailers are aware of the relative danger of changing dynamics that drive additional demand for given products.

Extent to which inventory is carried specifically to compensate for significant promotional demand variation in excess of forecast demand, which is considered over and above appropriate safety stock requirements

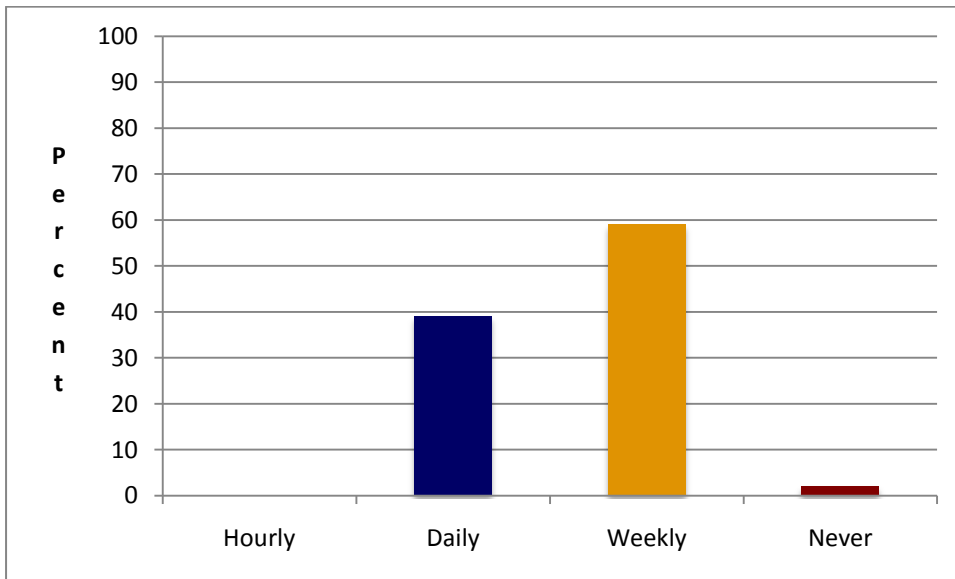


Considerations: In recent years pressure to decrease working capital costs has seen a reduction in inventory throughout the supply chain. Retailers and suppliers may need to openly discuss the situation and understand the follow-on impact to given products if significant oversell versus forecast is a risk.

PROMOTIONAL EVALUATION

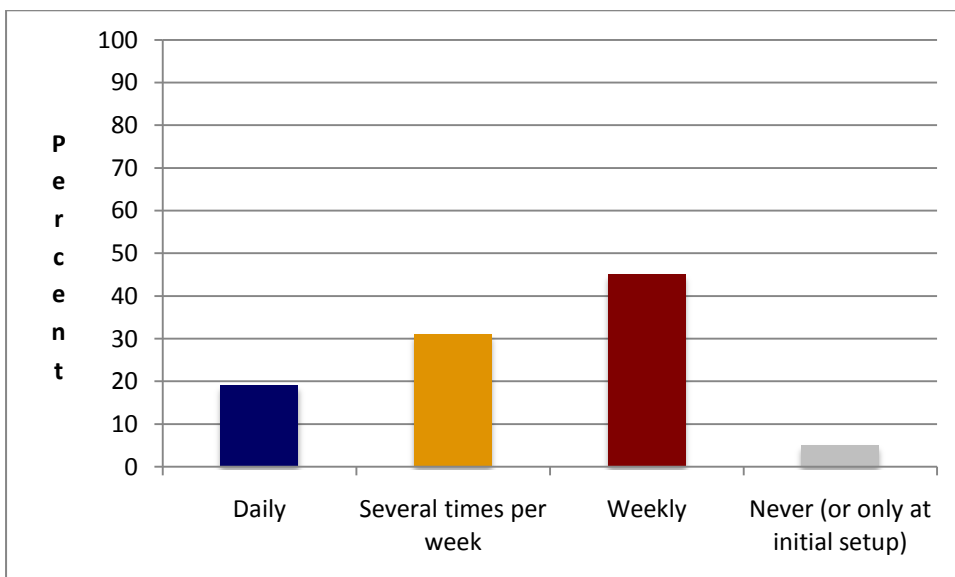


Regularity with which reviews/updating of promotional forecasts occur once a major promotion has commenced



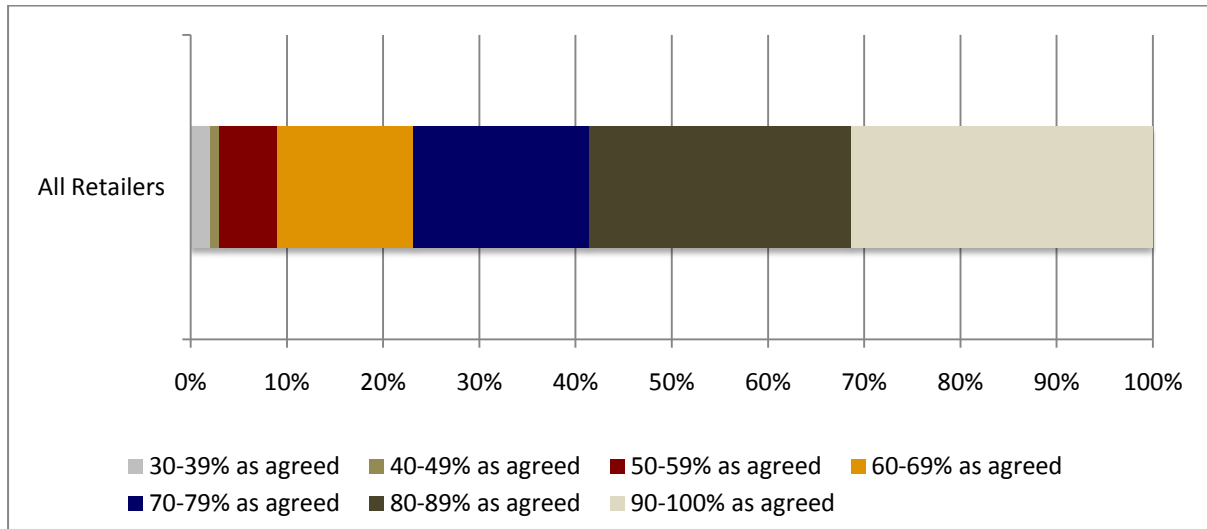
Considerations: What is the learning here regarding flexibility and reaction? If promotions typically run for one week, only a daily review could be impactful, but is it too late once a promotion has commenced?

Regularity with which a physically check of in store execution, compliance and product availability occurs once a major promotion has commenced



Considerations: What benefits (and costs) are suppliers seeing from checking major promotional compliance regularly? What is driving the need for this?

Percentage of promotions are executed AS ORIGINALLY AGREED (i.e. timing, promotional vehicle, and participation level)



Key findings: Across all retailers, 30% of suppliers thought that promotions were generally executed fully (90-100%) as agreed, and another 30% believed promotions were executed largely (80%-90%) per the original agreement.

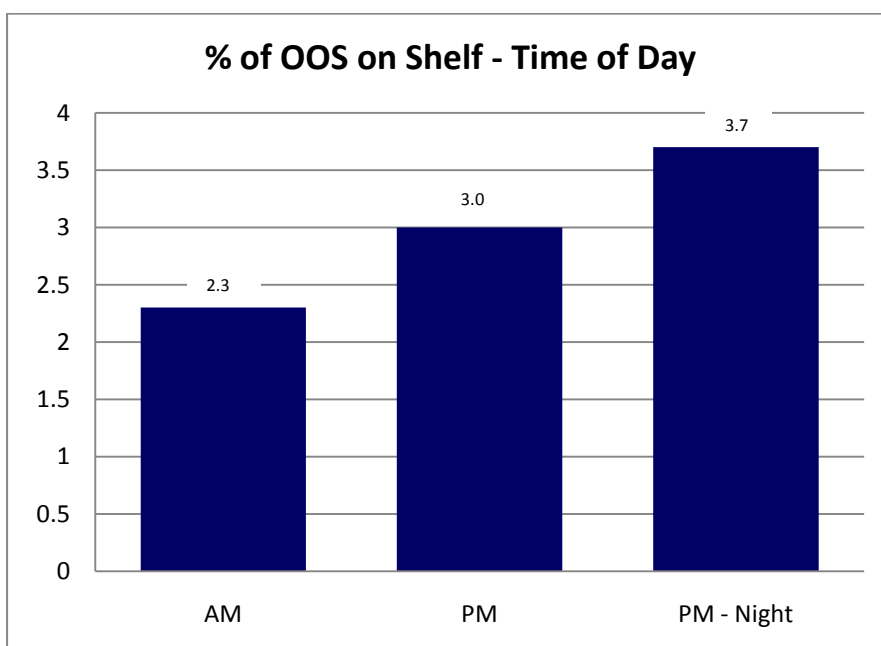
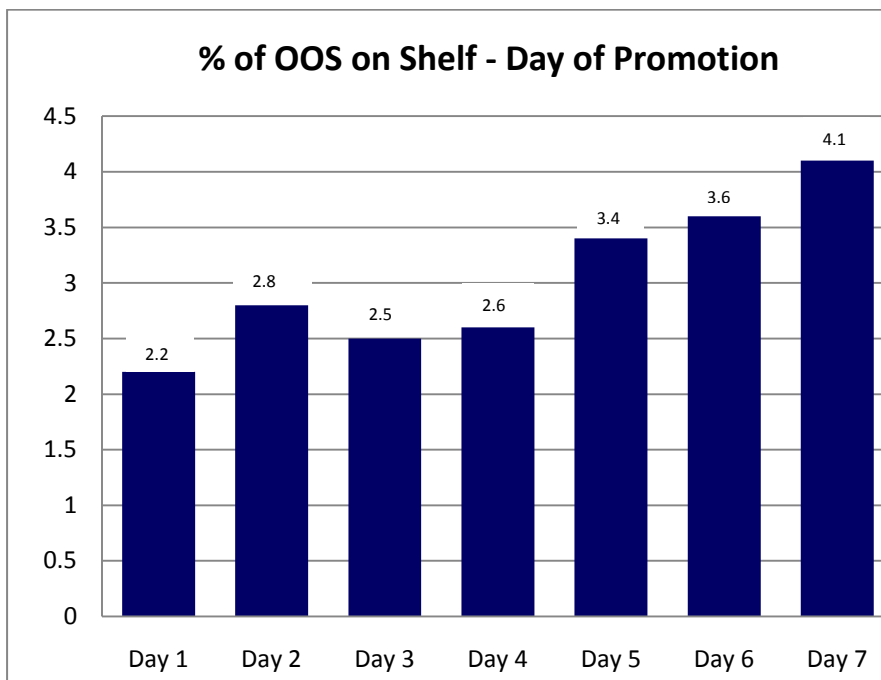
Considerations: The level of compliance to original agreement varied by retailer and retailer specific results should be discussed with the individual retailer in question.

IN-STORE AUDIT

A series of in-store audits was undertaken in July 2010 with the assistance of Retail Facts. Stores were physically checked over a one week promotional period, data compiled and analysed.

In total 630 store audits were completed. Between 10 to 15 promotions per retailer per visit, covering a total of 271 stock keeping units (SKU's) equating to a grand total of 94,850 data points on shelf, with similar number on display.

The charts below refer to availability of the promoted lines audited on shelf.



The numbers in the charts are best used as thought starters to the time of day and week when promoted lines might be most vulnerable to out of stock situations. Whilst the numbers themselves may not appear high, it should be considered that (among other things):

- These were major promotions in most cases and would have had strong stock weight support. This may not be the case for all tiers of promotions.
- A 3.5% out of stock rate means that for every store in stock 100% another is out of stock 7% of the time...and so forth.

The results of the audit revealed:

1. Promotional out of stocks on shelf rise as the promotion nears its conclusion, day 5, 6 and 7 of the promotions progressively show the highest out of stocks.
2. Promotional out of stocks on shelf show a consistent trend of higher out of stocks as the day progresses, morning, afternoon and evening.
3. After 7pm promotional out of stock on shelf rate is consistently the highest of the day.
4. Out of stock on display does not suffer the same out of stock trends throughout the day as the shelf with out of stocks fluctuation minimal.
5. Out of stock on display does peak towards the end of the promotional week.

Some discussion points these findings may raise:

1. What are the best days and time for supplier merchandisers to visit stores to prevent lost sales? (may vary by category)
2. The audit identified the numeric percentage of out of stocks on promotion during the week and time of day but what does this relate to in lost sales? What is the real cost of OOS?
3. Different stores have different out of stock rates and patterns, can suppliers be directed to the hotspots to minimise supplier cost and maximise lost sales?
4. What are the drivers behind issues with filling stock from storeroom to display/shelf where this is a problem? How might parties work together to overcome?

Please note that more extensive data of a company's confidential nature has been provided to each retailer regarding promotional availability performance in their respective businesses, including data for availability on display units.

INDUSTRY WORKSHOPS

The information attained through both the Supplier Survey and the In-Store Audits was compiled by ECRA and flowed into three retailer specific workshops, where Woolworths, then Metcash, followed by Coles and suppliers came together to discuss issues both parties faced, prioritise these issues and identify potential approaches to overcome them.

At each workshop the Retailer provided an overview of their ‘pain points’ in regards to planning and executing promotions and with communication both internally and with suppliers. The ECRA Secretariat and Retail Facts then provided delegates a review of the Survey and Audit findings. Finally, suppliers and retailers worked together in groups to prioritise the issues raised and identify practical solutions.

Each of the three aspects of promotions mentioned previously – planning, execution and evaluation – were addressed at the workshops. For each of these three aspects various industry level insights, issues and recommendations follow. Again, it should be noted that the following pertains to the industry level. Separately, each retailer/wholesaler has received specific reports related to their businesses.

The purpose of the promotional process is to align and create synergies between trading partners, people and processes to execute successful promotions and maximise on-shelf availability.

The promotional process involves cross functional working and multichannel communication, making execution multifaceted, complex and involved.

A common theme throughout the workshop was that promotional objectives are often not backed up with the correct promotional mechanic, leading to the conclusion that each promotion will require a personalised and individual approach to execution.

Promotional Planning – Industry level insights, issues and recommendations

Three priority insights have been captured for promotional planning, along with some of their core issues, possible drivers of these issues and potential solutions for collaborative action. Three additional key insights are also listed along with potential solutions flagged by the group.

The intent is that these issues be tabled for discussion between business partners when planning how they are able to work better to execute their promotional programs moving forward. Different insights will resonate strongest for different businesses, but ECRA recommend all these promotional planning insights and options be considered as part of promotional planning discussions.

Priority Insight # 1	Key Issues Faced
Late changes made to promotion dynamics impact supplier ability to plan supply and manage inventory	Final promotional price points, catalogue placement, display vehicles, skus etc are communicated to suppliers too late for changes in supply planning to be effectively implemented – this can greatly hinder availability and execution
Possible Drivers of Issues	Potential Solutions
<ul style="list-style-type: none"> Competitive pricing between retailers Lack of resources – focus is one week to next 	<ul style="list-style-type: none"> Supplier advice to Retailers regarding flexibility and constraints at item/ family level on regular basis

<ul style="list-style-type: none"> • Lack of awareness of Supplier limitations on the part of retailers • Competition between buyers 	<ul style="list-style-type: none"> • Add a Go/No go check into the change process - involving Suppliers • Optimal communication process – promotional change hot line?
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Priority Insight # 2	Key Issues Faced
<p>Promotional planning and forecast accuracy are best achieved collaboratively between retailers and suppliers, resulting in a single agreed and aligned action plan</p>	<ul style="list-style-type: none"> • Secretiveness • Lack of understanding of each party's issues, capabilities, processes etc. This hinders capability to optimise promotional planning • New lines, run outs, private label promotions etc need extra discussion or else cause forecasting issues • Parties working to differing assumptions when planning events
Possible Drivers of Issues	Potential Solutions
<ul style="list-style-type: none"> • Fear of being out priced • Lack of time/resource • Lack of understanding of own business (both sides) • Lack of accountability • Lack of data (or not prepared to share) • Lack of trust 	<ul style="list-style-type: none"> • Put on top to top business plan and spend time discussing business structure, capabilities, issues etc. Build up level of collaboration over time • KPIs, agreements in place • All functions involved and aware of what is appropriate/ acceptable/ required of them • Introduce joint planning sessions between retailers and suppliers with all key stakeholders involved

Priority Insight # 3	Key Issues Faced
<p>The critical importance of STORES in the promotional planning process</p>	<ul style="list-style-type: none"> • Stores changing volumes at late notice • Importance of store SOH data in determining forecasts • Store decisions on display options impact volumes • Compliance levels/intentions impact volumes needed • Promotional run out plans are known, unknown and/or considered
Possible Drivers of Issues	Potential Solutions
<ul style="list-style-type: none"> • Conflicting KPIs for stores versus HO • Data granularity unavailable • Autonomy levels & skill levels • Lack of involvement or not asked to be involved early enough • Compliance not measured/enforced 	<ul style="list-style-type: none"> • Integrate store KPIs – align with business • Involve stores early in discussion – understand issues and likely impacts • Optimise autonomy levels and set in place checks and balances to identify potential impacts of decisions on stakeholders earlier.

Additional Key Insights for Promotional Planning

Insight/Issue	Opportunities
Retailer/Wholesaler internal communication, ownership and KPI alignment is critical	<ul style="list-style-type: none"> Internal education program focused on promotional planning (and execution and evaluation) – including stakeholder relationships Senior management review of KPI clashes New KPI bases considering impacts on others
Inventory management plans between Retailer Head Office, States/DC's and Suppliers must be agreed, committed to and communicated	<ul style="list-style-type: none"> Build inventory management (volumes and phasing/timing) into collaborative planning approach. Ensure early and accurate communications and associated mechanisms Involve all stakeholders (stores, DCs included) to resolve issues and align Move to a 'one number' based approach to forecasting Education sessions/guides for Suppliers about automated store ordering systems to drive understanding
Data availability, accuracy and timeliness is a facilitator of quality promotional planning	<ul style="list-style-type: none"> Identify (jointly) 'must have' data – including timeliness and granularity required Identify the quantifiable benefits of data sharing – prove the financial case for data sharing if necessary Test data management concepts before full roll-out – subsequent changes may be costly

Promotional Execution – Industry level insights, issues and recommendations

As in the Planning section the workshop feedback for promotional execution has been consolidated into priority insights, along with core issues, drivers and potential solutions for collaborative action. Additional key insights are also listed along with potential solutions flagged by the group.

Again the intent is that issues are tabled for discussion between trading partners to facilitate better execution of promotional programs. Different insights will resonate strongest for different businesses, but ECRA recommend promotional execution insights and options are considered as part of discussions.

Priority Insight # 4	Key Issues Faced
<p>Effective communication of key information following the commencement of a promotion is critical.</p>	<ul style="list-style-type: none"> Poor communication and timeliness of information flow along the value chain once the promotion has commenced including promotional instructions, local activity, store locations, early indicators of performance – hinders execution, response to issues and product availability
Possible Drivers of Issues	Potential Solutions
<ul style="list-style-type: none"> Lack of awareness of who needs what information. Getting the right people to the table. Failure to instigate early warning response to promotional activity increases/decreases. Lack of resources – promotion commences onto next issue 	<ul style="list-style-type: none"> Collaborative forecasting programs extending into promotional period with key agreements on when promotional demand will be taken into DC's. Specific targeting promotional instructions. Develop a communication matrix and share with trading partners.

<ul style="list-style-type: none"> Lack of awareness of Supplier/Retailer capability 	<ul style="list-style-type: none"> Develop early warning mechanisms to allow trading partners to respond to positive (or negative) uplift in first few days.
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Priority Insight # 5	Key Issues Faced
<p>Align operational capability to deliver promotional expectations.</p>	<ul style="list-style-type: none"> Timing and volume of orders for receipt and delivery into DC's. Communication of promotional expectations i.e. volumes across the disciplines to ensure capability.
Possible Drivers of Issues	Potential Solutions
<ul style="list-style-type: none"> Lack of awareness between trading partners of the inventory management drivers and targets. Lack of alignment within businesses of buying and replenishment practices. DC capacity matching promotional selling peaks. 	<ul style="list-style-type: none"> Internal education program focused on promotional planning (and execution and evaluation) including stakeholder relationships Alignment across the business to ensure promotional capability Review and align KPI's to meet promotional objectives. Consider new KPI based on impacts to others Disciplines established and adherence to promotions including strong store tie up

Priority Insight # 6	Key Issues Faced
<p>Critical importance of the alignment of key performance metrics within the business and with trading partners.</p>	<ul style="list-style-type: none"> Stores changing numbers during the promotion Conflicting KPI's between buying, replenishment and regional teams as well as between trading partners.
Possible Drivers of Issues	Potential Solutions
<ul style="list-style-type: none"> Lack of process to arrive at a single volume and timing number for the business including the communication of this number. Differing expectations for the promotion by the trading partners. Systems lack sophistication, granularity and integration 	<ul style="list-style-type: none"> Establish single number focus Data analysis and visibility of information to the key stakeholders in a timely fashion. Joint collaborative planning/forecasting meetings program

Additional Key Insights for Promotional Execution

Insight/Issue	Opportunities
Understand and appreciate the role each trading partner plays in the in-store processes to influence the outcomes of the promotion.	<ul style="list-style-type: none"> Examine the role of the field teams and how best to align to support stores i.e. promotional week, time of day Establish clear communication protocols for the flow of information from National Buyers to store support staff.
Develop, establish and communicate end of promotional procedures to all participants along the chain.	<ul style="list-style-type: none"> Establish procedures for end of promotional periods. Test concept and new processes before full roll-out, subsequent changes may be costly Involve stores in discussions to understand issues and concerns.

Promotional Evaluation – Industry level insights, issues and recommendations

Consistently throughout the survey and workshop feedback was the theme of a failure, by the industry and individual companies, to take due consideration of the recorded learning's and apply them to future promotional activity. When analysed data and information, both good and bad, will inform future promotional execution and drive continuous improvement.

There is a motivation to examine performance but detail such as late changes, non adherence to process; failure to communicate should be captured along with more standard data points such as forecast accuracy. The open and transparent sharing of this information can inform future promotional planning.

Priority Insight # 7	Key Issues Faced
A consistent and layered approach to promotional evaluation with varying levels of depth based on the promotional activity, i.e. major vs. minor promotional activity.	<ul style="list-style-type: none"> Focus is on the forecast vs. actual, not on the operational execution. The success of the operational execution of the promotion is often different for different departments Failure to complete any evaluation When evaluation is conducted there is a failure to share information.
Possible Drivers of Issues	Potential Solutions
<ul style="list-style-type: none"> Limited time, onto the next promotion. Getting the right people to the table. Stock sold and stock on hand number not shared. Too much data, lack of capability to analysis and turn into useful information. 	<ul style="list-style-type: none"> Establish a methodology for examining promotional execution capability for major promotions. Ensure key stakeholders participate in the performance review. Consistent approach to analysis of promotional execution.

Priority Insight # 8	Key Issues Faced
<p>Establish critical performance metrics to measure success.</p>	<ul style="list-style-type: none"> • Conflicting metrics, with a significant focus on forecast sales numbers. • In addition to forecast vs. actual a broad range of metrics to evaluate promotions including IBSL, OBSL, OSA, stock holdings at end of promotion. (<i>Outside the scope of this project – but recommended are ROI and post promotional behavior.</i>)
Possible Drivers of Issues	Potential Solutions
<ul style="list-style-type: none"> • Lack of understanding of each party's capability, processes with regards to data capture and analysis. • Lack of time, resource and capability. 	<ul style="list-style-type: none"> • Build a suite of metrics for major promotional activities and incorporate into the planning steps and evaluation phase, including IBSL, OBSL, OSA, stock holdings at end of promotion. • Metrics could be used as a key input component when planning for the next promotion.

Priority Insight # 9	Key Issues Faced
<p>Create opportunities to share whole of chain learning's.</p>	<ul style="list-style-type: none"> • Major promotions can be examined from the retail perspective, often the vendor learning's are discounted.
Possible Drivers of Issues	Potential Solutions
<ul style="list-style-type: none"> • Limited incentive to spend time on evaluations. • Focus on forecast vs. actual, not on operational capability to execute. 	<ul style="list-style-type: none"> • Institute a cross functional review for major promotions assessing the key performance metrics and root cause analysis. • Share learning's and practices with future promotional opportunities.

CONCLUSIONS AND NEXT STEPS

The objective of this report is to provide a useful reference point for the food and grocery industry, regardless of their size, maturing or sophistication, to begin to improve supply chain replenishment and product availability of promoted products with their trading partners.

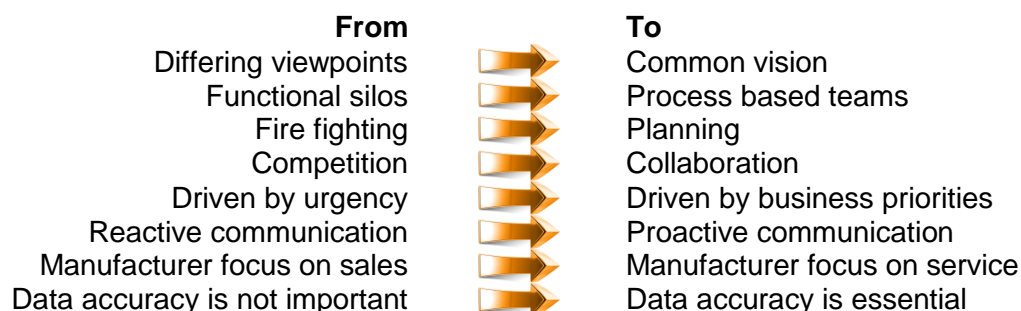
At an industry level, there were many insights identified through the survey, in-store assessment and workshop. It was recognised by all that Australia (and similarly for New Zealand) is an extremely competitive market with a small number of very large players in the retail and supply base.

The industry is not naïve; it recognises that the high focus on promotions and price competition is not likely to change in the short term. As a result, the spotlight is on improving collaboration to support a competitive environment. The critical importance of timely, open, honest, and accurate communication, combined with the roles of key stakeholders within suppliers, retailer/wholesaler management teams and stores.

There are opportunities for improvement requiring little capital expenditure, and the greatest benefit will likely come from improvements enabled through people, processes, data management and trading relationships.

Participating retail and wholesale organisations have been provided with targeted reports specific to their business and their trading partners. Promotional activity should be set collaboratively. Both trading partners should consider the planning, execution and evaluation elements of a promotion whilst seeking other opportunities for collaboration like store optimisation through the smart use of field force personnel. Promotional on-shelf availability responsibility will vary at each stage of the supply chain. Trading partners should learn how their management practices affect replenishment throughout the supply chain and they should work together to close the collaboration gap.

ECRA will continue to pursue opportunities to bring the industry together to examine this issue. We will continue to advocate fact based discussions as the basis for collaborative performance. Moving to more efficient promotional on-shelf availability is likely to involve a high degree of change, underpinned by people, process and data. The following diagram summarises the potential changes required.



Source: *A Guide to Efficient Replenishment and Reducing Stock Outs within the Grocery Industry*, ECRA, 2001.

ECRA congratulates the industry for this first very positive step and looks forward to working together to deliver real industry improvements to the way promotions are planned, executed and evaluated in the Australasian market.

APPENDICES

Appendix 1 - Survey

ECRA Winning with Promotions SUPPLIER Survey

1. Section 1 of 4 - The Promotional Landscape in Australia

1. What percentage of your company's total sales to shoppers/consumers through the retail channel (i.e Supermarkets / Grocery Stores) are on the following promotion types?
 (Note: Totals should add to 100%)

Price promotion only? (includes price reduction, Buy one get one free, Multi-buys etc)

Consumer promotion only? (eg: 'win a prize')

Combined price and consumer promotions?

Non promotion? (i.e regular sale)

2. This question investigates the degree to which various types of promotions are used in the retail channel, and their effectiveness in achieving desired business outcomes.

For each type of promotion listed, choose from the 'dropdown' menus the most appropriate answers regarding level of use and effectiveness of the promotional type in your business.

	What percentage of your company's promotional events are:	How effective is each promotion type in meeting your business objectives
Price discount (straight cents off)	<input style="width: 40px;" type="text"/>	<input style="width: 40px;" type="text"/>
Multi-buy / 'Buy one get one free'	<input style="width: 40px;" type="text"/>	<input style="width: 40px;" type="text"/>
Value Pack / Promotion pack (eg '200g Extra')	<input style="width: 40px;" type="text"/>	<input style="width: 40px;" type="text"/>
Coupons / Loyalty / Charity etc (Consumer promotion)	<input style="width: 40px;" type="text"/>	<input style="width: 40px;" type="text"/>

3. Generally speaking, do you agree or disagree with each of the following statements with regards to promotions in the retail environment? (choose from dropdown menu)

	Level of agreement:
Promotional programs are typically set by replicating historical promotional events	<input style="width: 40px;" type="text"/>
There is inadequate knowledge of consumer / shopper response to different types of promotions	<input style="width: 40px;" type="text"/>
There is inadequate information to measure consumer shopper response to different types of promotions	<input style="width: 40px;" type="text"/>
Promotional plans are developed jointly in collaboration with my major trading partners	<input style="width: 40px;" type="text"/>

Page 1

Appendix 2 – In-store

Retail Insight provides data analytics which drive improved OSA, delivers more compliant and effective promotions, and increases the efficiency of in-store activity.

Their focus is on converting retail data into retail insight – and then putting insights to work in-store in a way which drives more profitable sales for stores and brands, and a more satisfying experience for shoppers.

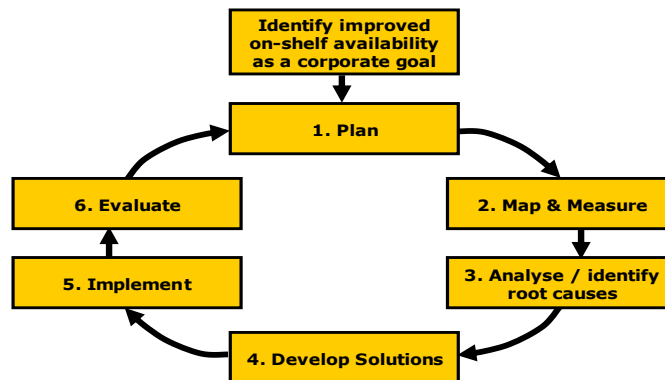
The following methodology was employed during audit:

1. OOS were identified as 0-3 units of stock on display to the shopper at the regular fixture and at any secondary off location display with the two locations reported separately.
2. Audits were carried out corresponding with peak trading periods. Slower trading days, (Monday, Tuesday, Wednesday), were audited once in the afternoon and Thursday, Friday and Saturday were audited in the morning, afternoon and evening (after 7pm). Sunday was audited in the morning and afternoon.
3. Audits were carried out corresponding to the promotional week, i.e. Coles audit ran Thursday through Wednesday with Woolworths and the Independents audit Monday through Sunday.
4. Store selection was completed in conjunction with each retailer with an approximate 70/30 split between metro and country.
5. Audits were completed in 20 Woolworths stores, 20 Coles stores and 5 Independent Stores spread across New South Wales and Victoria.
6. Audits included a variety of major promotions totalling around 10-15 promotions per retailer.

Appendix 3 - ECRA On-Shelf Availability Improvement Road Map

ECRA published its On-Shelf Availability (OSA) Improvement Road Map in 2009. Whilst not specifically targeted at promotional on-shelf/display availability the OSA Improvement Road Map is intended for use as a manual, and describes activities that can be undertaken to develop projects to improve OSA. As such ECRA suggest it will prove a useful tool to those wishing to improve availability on promotion collaboratively.

The ECR OSA Improvement Roadmap



Roadmap Basis Source: Shrinkage: A Collaborative Approach to Reducing Stock Loss in the Supply Chain, ECR Europe 2004

The road map provides an objective common language to aid communication between business partners and offers an easy-to-follow framework built around sequential steps, supported with information, tools and tips to address potential issues. As well as providing the platform for a project-based approach to OSA improvement, the framework can be applied as part of a continuous improvement loop.

To receive your copy of the report please contact Kim Riggans at kim.riggans@afgc.org.au or 02 6273 1466.

ⁱ ECRA The On-Shelf Availability Challenge 2007-2008.