

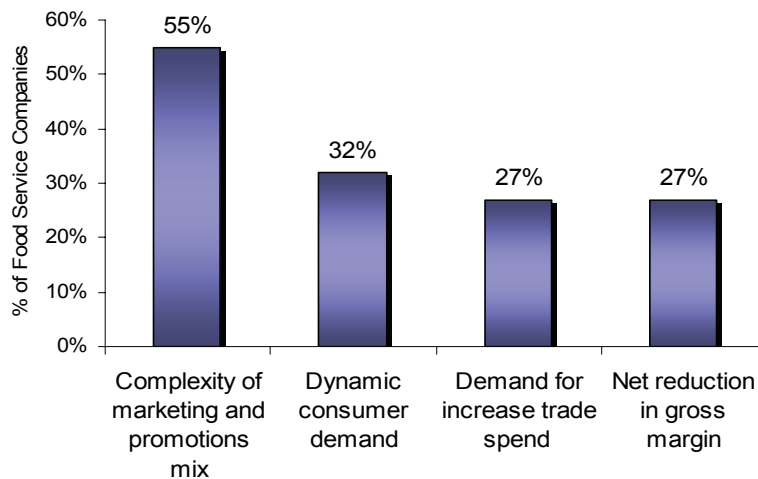
Food Service Trade Promotions Performance: Can Companies Improve?

According to the data from the September, 2007 Aberdeen Group Trade Promotion Management (TPM) Benchmark Report, 71% of food service manufacturers have overspent on their trade promotions in the last financial year leading to a year-over-year increase in total cost of promotions. Food service manufacturers have revealed that execution inconsistencies and lack of process management around promotion planning and analysis are the primary reasons for their fiscal irresponsibility.

Complexities Facing Food Service Companies

Food service manufacturers are struggling to meet their fiscal objectives related to trade promotions. Our data shows that food service manufacturers are dealing with a complex process of trade promotion planning and execution. Other pressures include: the need to increase trade spend to improve food and beverage product consumption at the food operator or retailer-level, and the inability to respond to the changing patterns of trade promotions demand (Figure 1).

Figure 1: Planning and Demand Response Pressures



Source: Aberdeen Group, 2007

State of the Food Service Ecosystem

The food service trade promotion ecosystem includes: food or beverage service manufacturers, distribution companies, brokers, and operators or retailers. The food service manufacturers plan product promotions and volume requirements for food service operators such as restaurants, hotels,

Fast Facts

- √ 71% of food service manufacturers indicate that they have overspent on their trade promotion, thus increasing their total cost of promotions versus last year
- √ In response to the challenges of the food service ecosystem, 64% of food service manufacturers are adopting an integrated approach to trade promotions by reducing the traditional dependence on disparate and legacy trade promotion modules that lack reporting, evaluation, and analysis.

Sector Definition

Respondents include food and beverage manufacturers, distributors, and retailers or food service operators

- √ 75% of food service respondents actively participate in the trade promotion process
- √ 15% of all food service companies fell into the Best-in-Class criteria

cafés, commissaries, and supermarket / grocery retailers. The food distribution companies and brokers act as intermediaries in the process of delivering the products and related promotions to the operators or retailers. According to our data, this ecosystem has acquired process complexities. Food service companies are 3.5-times more likely than Best-in-Class to overspend on product promotions and product push tactics due to lack of an assured flow of products and promotions from the distributor level to food service operators or retailers. The reasons for the lack of an assured flow to the retail-level are:

- Ineffective promotion planning and execution due to under-utilization of demand data at the manufacturer and distributor level
- Low adoption of predictive analytics-based capabilities for promotion program forecasting and event evaluation at the manufacturer and distributor level

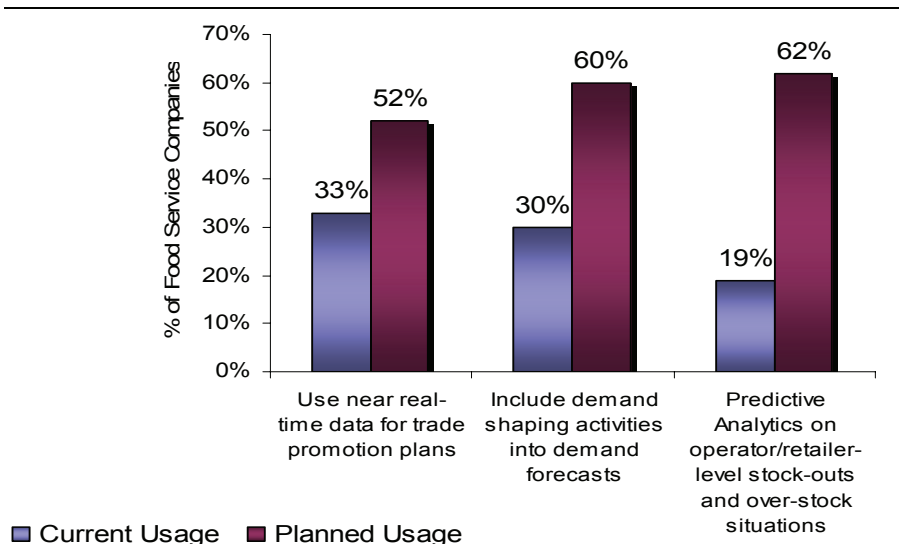
“One of challenges is how to manage trade promotions effectively without adequate reporting and analytics. The next step to complete our trade promotion profile is to add a strong analytics capability. This is the only way for us to have complete control retail demand and plan effective promotions.”

~ Director, Operations,
Large U.S. based Food
Service Manufacturer

Process Capabilities Improve Trade Promotion Performance

The current usage of trade promotion process capabilities that support the integrated TPM approach of food service companies is low when compared to 60% of Best-in-Class companies (Figure 2). The ability of food service companies to implement profitable trade promotion plans is dependent on effective demand shaping at the unit level, use of predictive analytics in trade promotion and volume planning, and real or near-real time data utilization for evaluation and analysis. It is evident from the planned (12-month) adoption in Figure 2, food service companies are increasingly cognizant of the fact that internal process capabilities are required for responding effectively to food operator or retailer demand. These process improvements can help these companies to reduce their excessive dependence on food distributors to push the product to the shelf.

Figure 2: Process Capabilities to Support Trade Promotions



Best-in-Class Criteria

√ The criteria for calculating Best-in-Class performance are: process measures – forecast accuracy, financial measures – trade overspends, and quality measures – category sales uplift and margin uplift

Source: Aberdeen Group, 2007

Integrated TPM Strategy Can Solve Ecosystem Complexity

The foremost objective for food service manufacturers is proactive promotion planning and timely product distribution to the retailer or the food service operator shelf. In response to the challenges related to the complexities of the food service ecosystem, 64% of food service manufacturers have indicated that they are adopting an integrated approach to trade promotions by reducing the traditional dependence on disparate and legacy trade promotion modules that lack reporting, evaluation, and analysis. (Note: An integrated approach to managing an end-to-end trade promotion cycle includes promotion planning, negotiations, retail execution, deduction management, evaluation, and analysis.)

According to our data, 40% of all food service companies that are adopting an integrated approach consider reporting, evaluation, and analysis an integral part of improving trade promotion performance management at the distributor and food service operator level. This approach can ensure optimized flow of products and promotions, and predict the patterns trade fund spending. In other words, an integrated TPM approach would enable food service companies to build an internal process to focus on meeting food operator or retailer demand in a timely manner and forecast trade promotion plans accurately.

Conclusion

The traditional trade promotion model of food service companies is not deriving optimum promotional returns as is apparent from the fact that 71% of companies have spent excessive trade dollars when compared to their annual budgeted thresholds. The food service ecosystem can change for the better if these companies develop the integrated trade promotion approach by inducting reporting, evaluation, and analysis modules. These modules must consist of demand management and predictive analytics capabilities which can improve trade promotion performance management of manufacturers. The benefits of such an approach are that food service companies can minimize the risks associated with the cost escalation of trade promotion programs. Ultimately, the trade promotion process can be improved if the partners in the food service ecosystem consciously decide to develop the reporting, evaluation, and analysis modules that are an inseparable part of integrated trade promotion approach.

Vendor Landscape

Best-of-breed, enterprise, and consulting service providers that offer integrated trade promotion solutions for the food service industry are listed below:

- **Hitachi Consulting:** This company provides strategy, process, and technology consulting services for food service manufacturers, distributors, and all other consumer product group companies. Trade promotion management is one of the several solutions that

Hitachi provides for companies seeking enablement of strategies around manufacturer and food service process management. Hitachi partners with several solution providers that consist of pure-play and enterprise-level expertise for trade promotion spend management, planning, execution, and analysis including SAP, IRM Corp., Vendavo, Synectics Group, and Instill.

- **IRM Corporation:** This solution provider has pure play strengths in providing business intelligence, predictive analytics, and promotion management solutions. They complement the integrated approach to trade promotions due to the domain expertise in providing business intelligence, analytics, trade spend, and promotion management for food and beverage manufacturers and distribution companies. The solution enables companies to analyze, track, and manage resources for optimizing food service manufacturer, distributor, and operator processes.
- **Blacksmith Applications:** This solution provider offers sales reporting, analytics, trade promotion contract management, and spend management solutions for the food service industry. This pure play company provides tools to food service companies for managing contracts, controlling trade spending, and apply business intelligence to existing TPM processes.
- **Instill:** This solution provider offers trade spending management, promotion management, customer and supplier reporting, as well as compliance modules for food service manufacturers, operators, and distributors.
- **SAP:** This enterprise solution provider offers integrated trade promotion solutions for food service and consumer product companies including volume planning, negotiations, retail / food service operator execution, execution, and analysis. SAP's reselling and consulting partners include: Vendavo, Vistex, Hitachi Consulting, and IBM.
- **Vendavo:** This company provides price and margin management solutions for consumer product and food service companies. SAP resells Vendavo's price and margin management solution. Typically, price and margin management can be bundled into the overall trade promotions management strategy of companies as both price and margin processes are integral parts of promotion planning, execution, and analysis.
- **Vistex:** This solution provider is an SAP partner. Their incentives and payback module falls under the deduction and spend management portion of an integrated trade promotion management solution. This solution enables food service and consumer product companies to better manage rebates, chargeback, billbacks, and incentive compensation.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research

[Trade Promotions Benchmark Report:](#)
March 2004

[Perfect Promotion Planning to Product Profit:](#) February 2007

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