

Trade Effectiveness at the Shelf: A Shareholder Perspective

Research Preview & Overview

Lora Cecere - AMR Research

Armen Najarian - DemandTec

Agenda

- **Research Background**

- **Research Findings**

- **Q&A**

Visibility is Essential to Assess Trade Effectiveness



Trade Effectiveness Impact on Shareholder Value Corp Executive Communication to Wall Street

“... we expect a **tough competitive environment** as many of our competitors are continuing to spend savings from restructuring programs on increased price discounting, **trade promotions** and marketing spending. ”

Clayt Daley, Chief Financial Officer

Procter & Gamble Q3, F2007 Earnings Call

Trade Effectiveness Impact on Shareholder Value Corp Executive Communication to Wall Street

“Trade promotions are an important component of the sales and marketing of our products, and are **critical to the support of our business**....Final determination of the permissible trade promotion amounts due to a customer **may take up to 18 months from the product shipment date.**”

Del Monte

Annual Report to Shareholders, F2007

Trade Effectiveness Impact on Shareholder Value: Wall Street Communication to Corp Executives

“The one thing I did want to get is a little more clarity on the marketing and there I'm getting to **the split between your trade promotion and stuff we would consider more consumer-oriented**. Trade promotion up in the third quarter. Now in the fourth quarter, you have said pretty clearly that the entire marketing spend is going to be up markedly. **Is there a split there you can give us between what would be deemed trade money and consumer money in Q4?.**”

Question from Terry Bivens – Bear Stearns
Hershey's Q3, F2007 Earnings Call

Trade Effectiveness Impact on Shareholder Value: Wall Street Communication to Corp Executives

“Did you say how much marketing was up for consumer foods in the quarter? Related to that, **can you talk about trade promotion?** Was that up? Do you expect it to be down in '09?”

Question from Chris Growe – Stifel Nicolaus
ConAgra Foods Q3, F2008 Earnings Call

Research Objectives

- **Gain an executive's understanding of the relationship between trade effectiveness and corporate profitability**
- **Develop a first-hand perspective from both parties at stake:**
 - Corporate finance executives
 - Wall Street analysts that cover the industry
- **Understand the perceived drivers of trade effectiveness:**
 - Budget allocation
 - Tactic selection
 - Retail merchandising compliance

Survey Methodology & Sample

- **100 completed web-based interviews conducted April 2008**
- **Phone interviews conducted with the financial analyst community during the week of April 14th (final count TBD)**
- **Scope of the research:**
 - U.S. companies in Consumer Products Manufacturing and Food and Beverage industries
 - At least \$500 million revenue in last fiscal year
- **Respondents were screened and qualified based on their job function in addition to their level of involvement in their company's merchandizing and sales strategies (including trade promotion management and optimization)**
- **Qualified companies surveyed use trade promotions to stimulate demand**

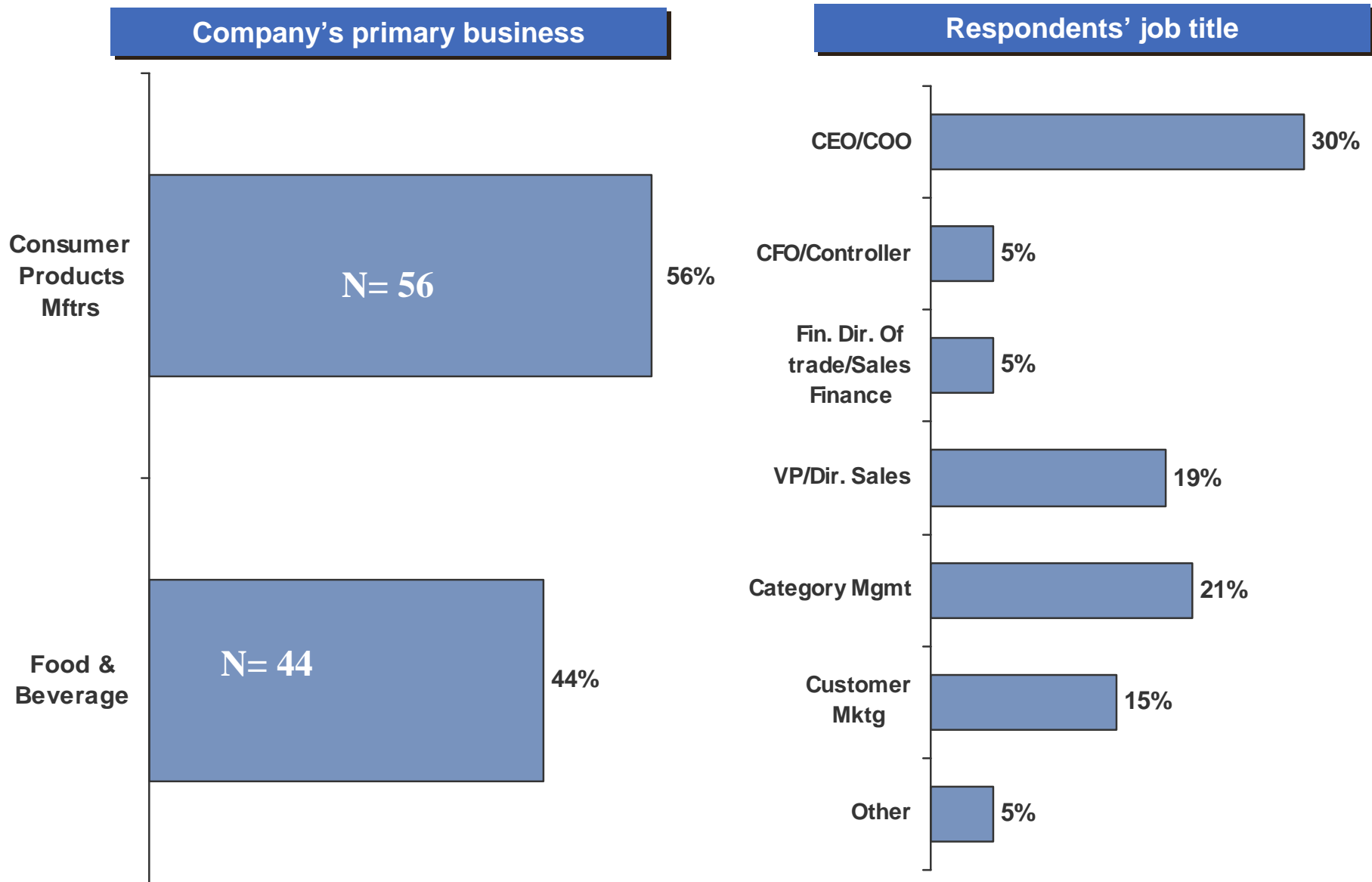
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- **Research Findings**

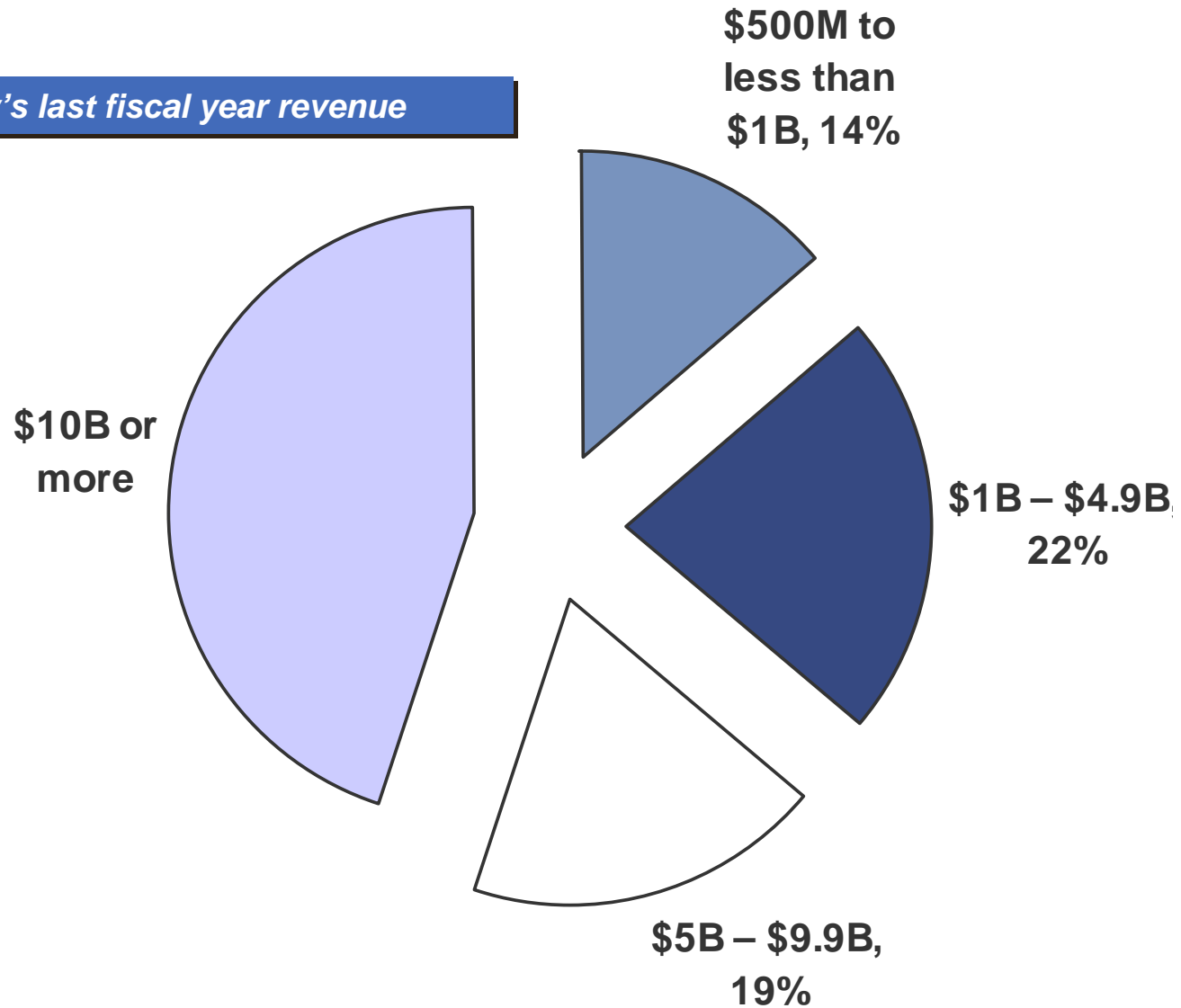
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Demographics



Demographics

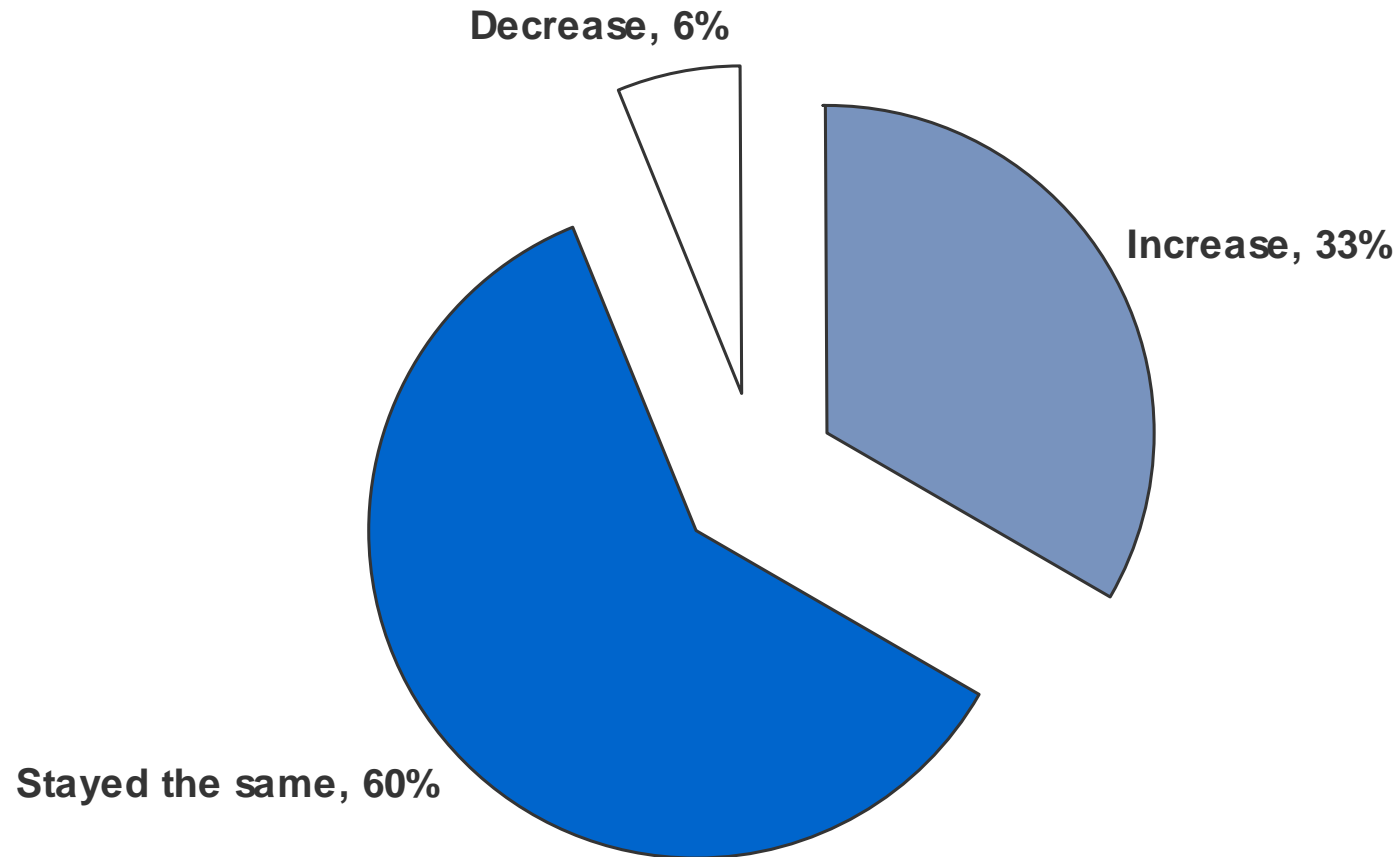
Company's last fiscal year revenue



Trade promotions spending

Q13. What was your actual trade promotion spending for all retail channels as a percentage of gross revenue in 2007?

Q16. Based on current planning, do you expect the trade promotions budget to increase, stay the same or decrease between 2008 and 2009?



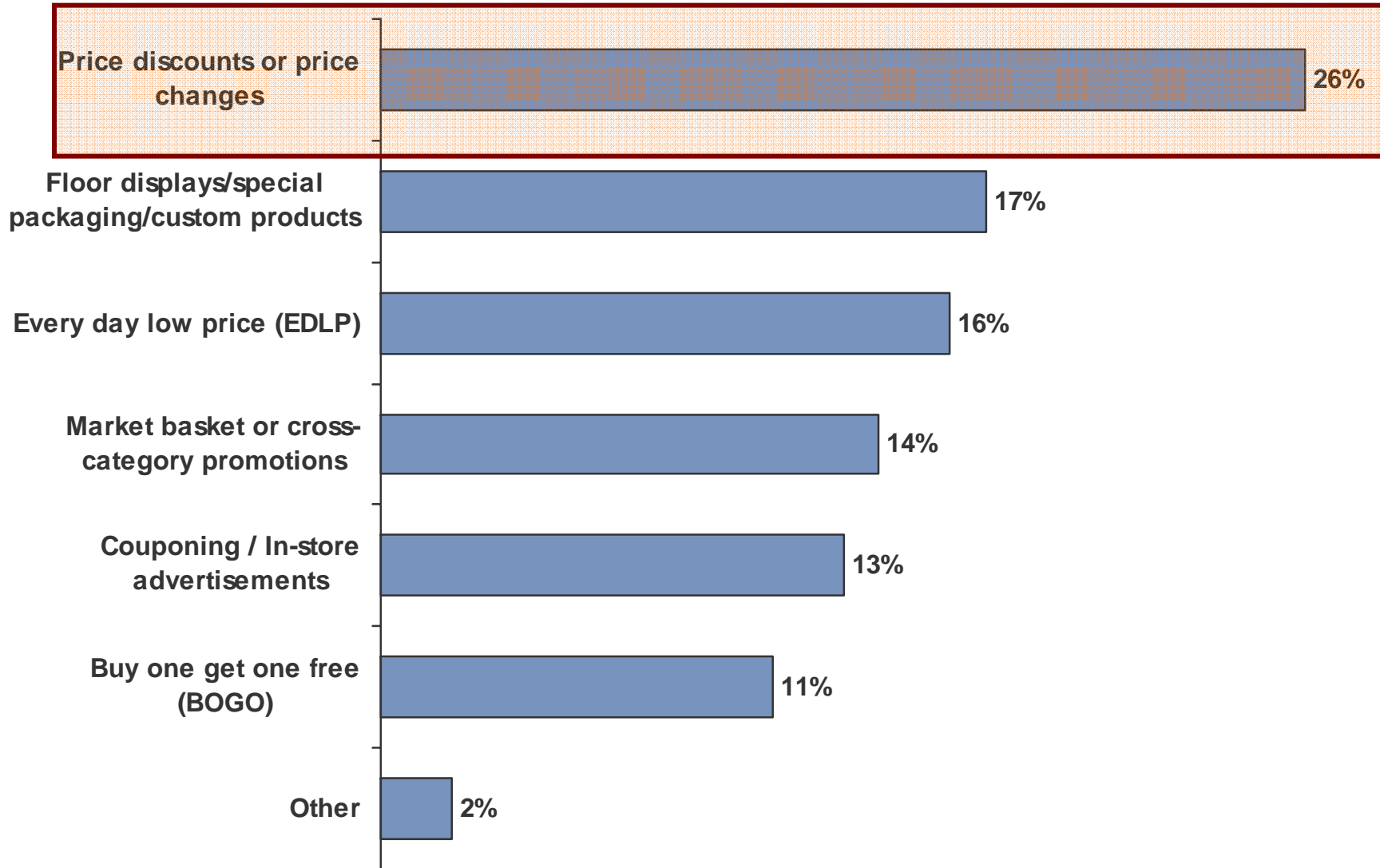
Trade promotions as a % of revenue in 2007: 14%

Excluding mentions of "don't know"

Allocation of promotion spending (adds to 100%)

Q15. How is your trade promotion spending allocated across the following types of promotions?

Mean % of spending

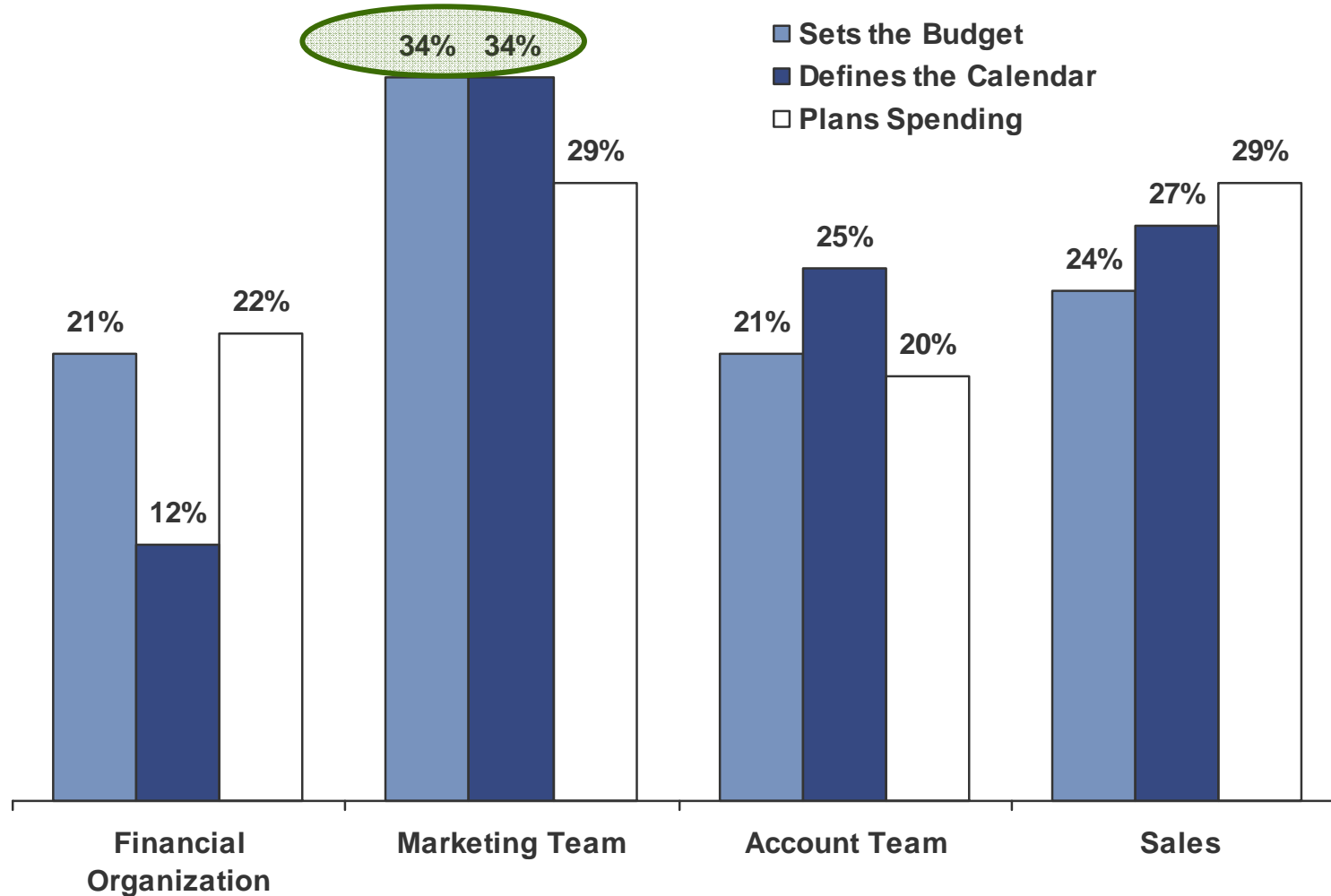


Ownership of trade promotions spending and of calendar/events

Who sets the trade promotions budget at your organization?

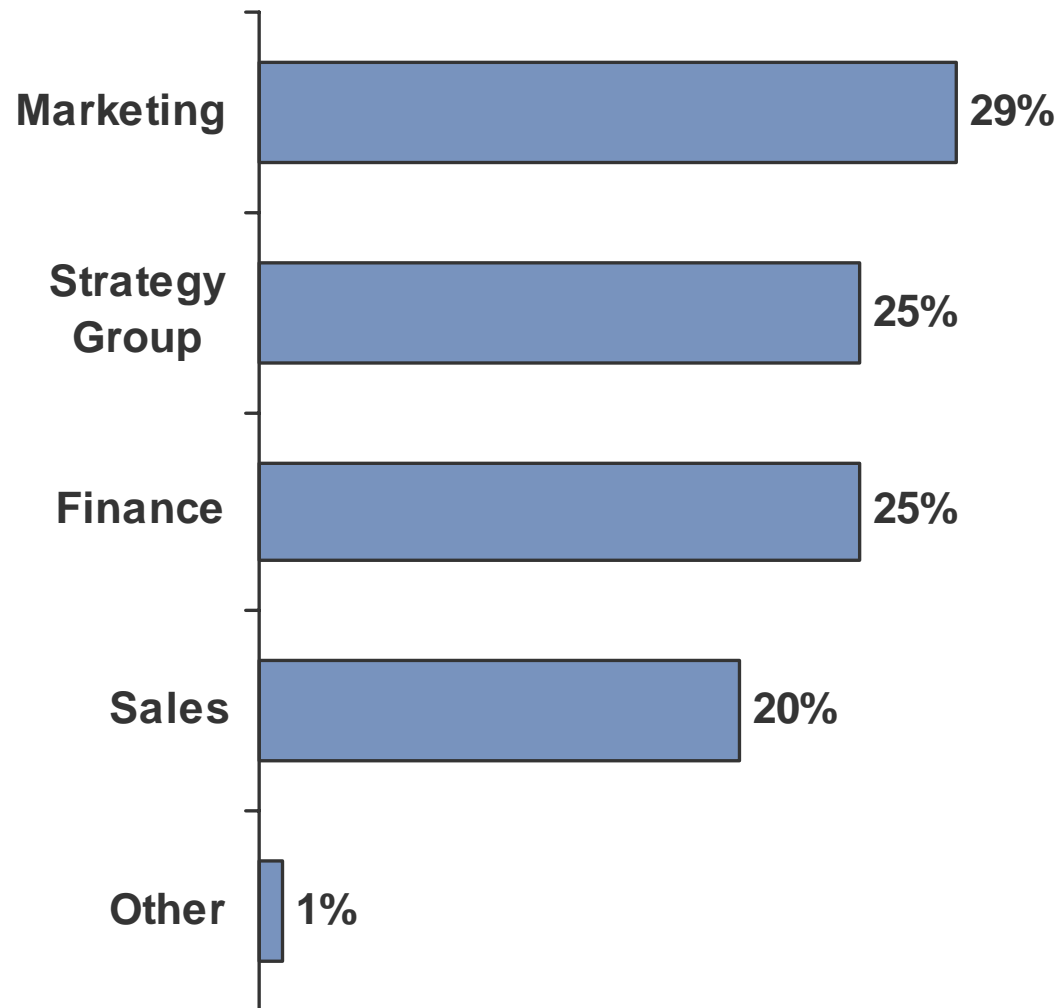
Who defines the calendar and event types/tactics for trade promotions in your organization?

Who plans trade promotion spending (e.g., setting target areas for financial budget appropriations for the year) at your organization?



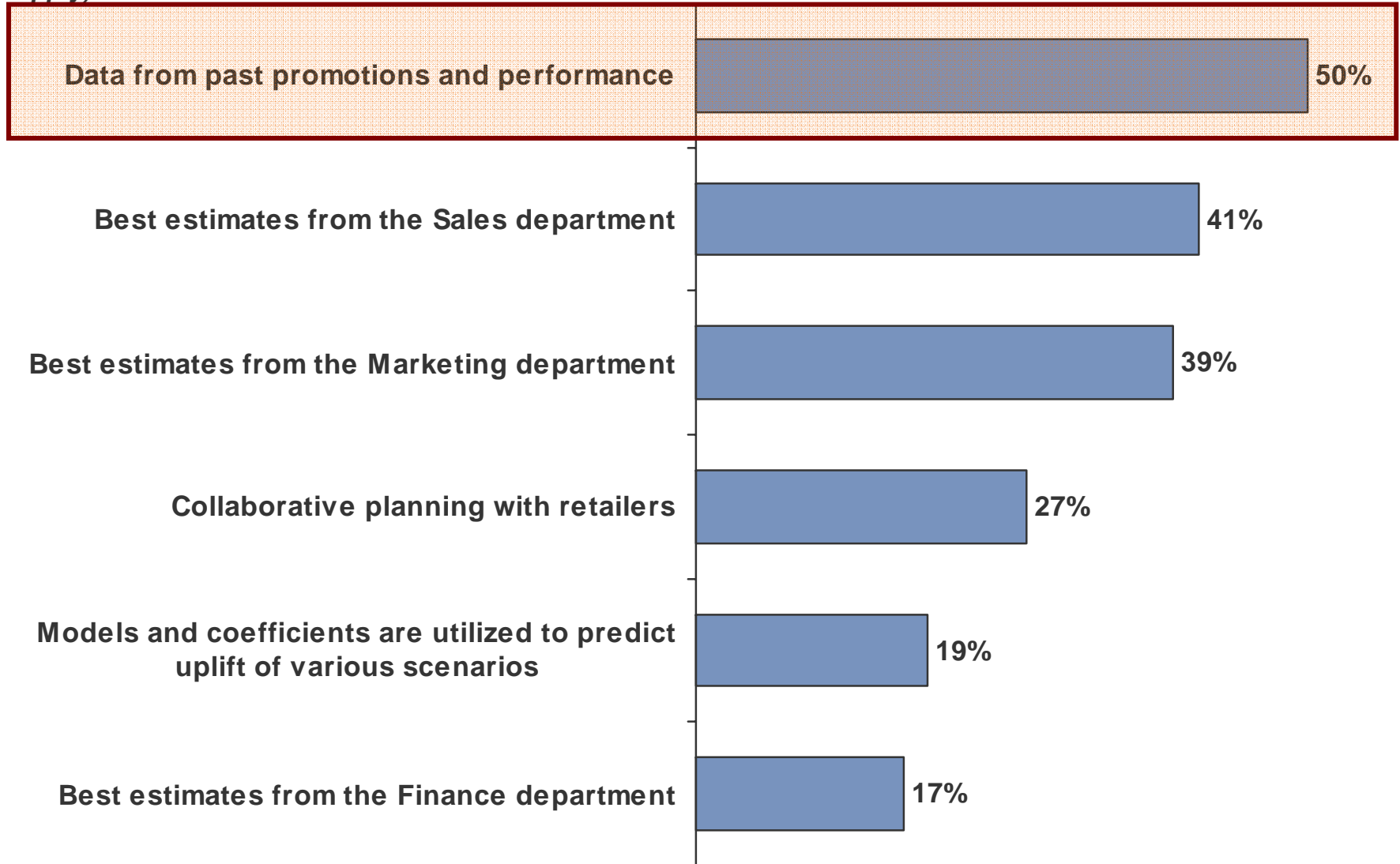
Pricing department reporting structure

Where does the pricing department report in your organization?



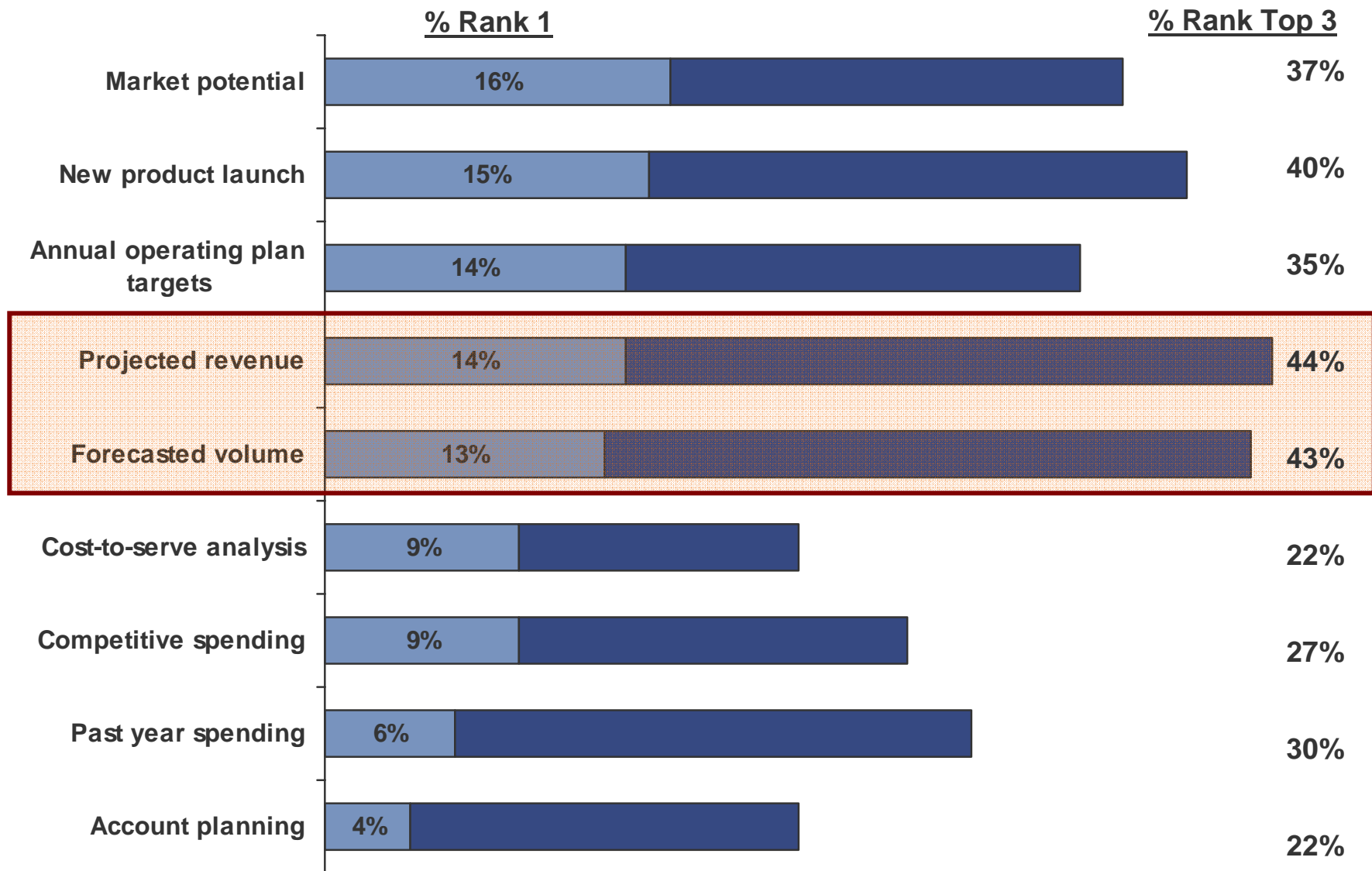
Calculation of incremental volume

Which of the following does your organizations use to calculate incremental volume on promotions? (Select all that apply)



Basis for determining trade promotions budget

Q12. What is the basis for determining the trade promotion budget? Please rank each of the following measures in order of importance where 1 is the most important measure used and 9 is the least important measure used.

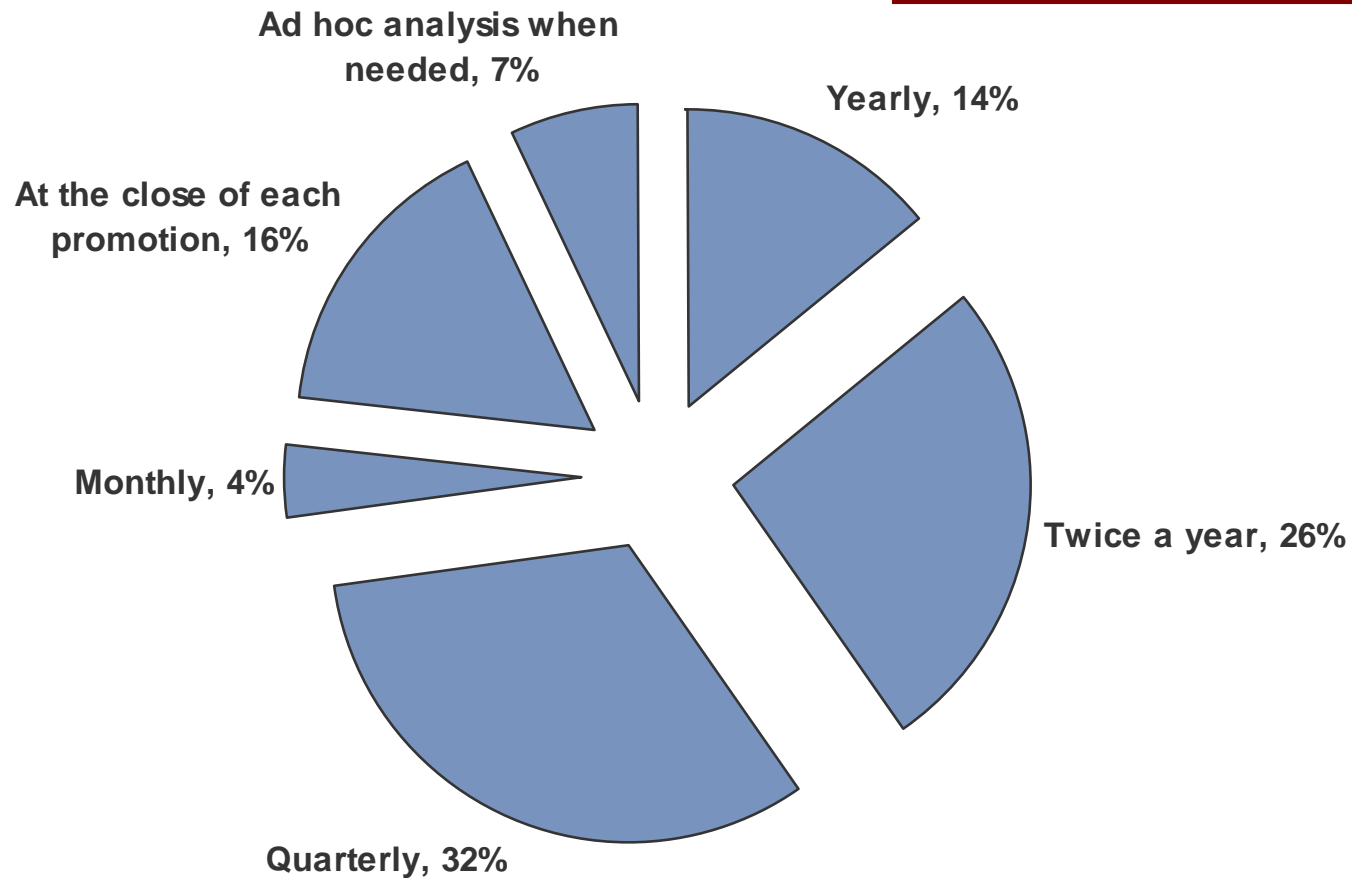


Frequency of evaluating promotion effectiveness

Q30. In 2007, what percentage of all trade promotions was measured for promotion effectiveness?

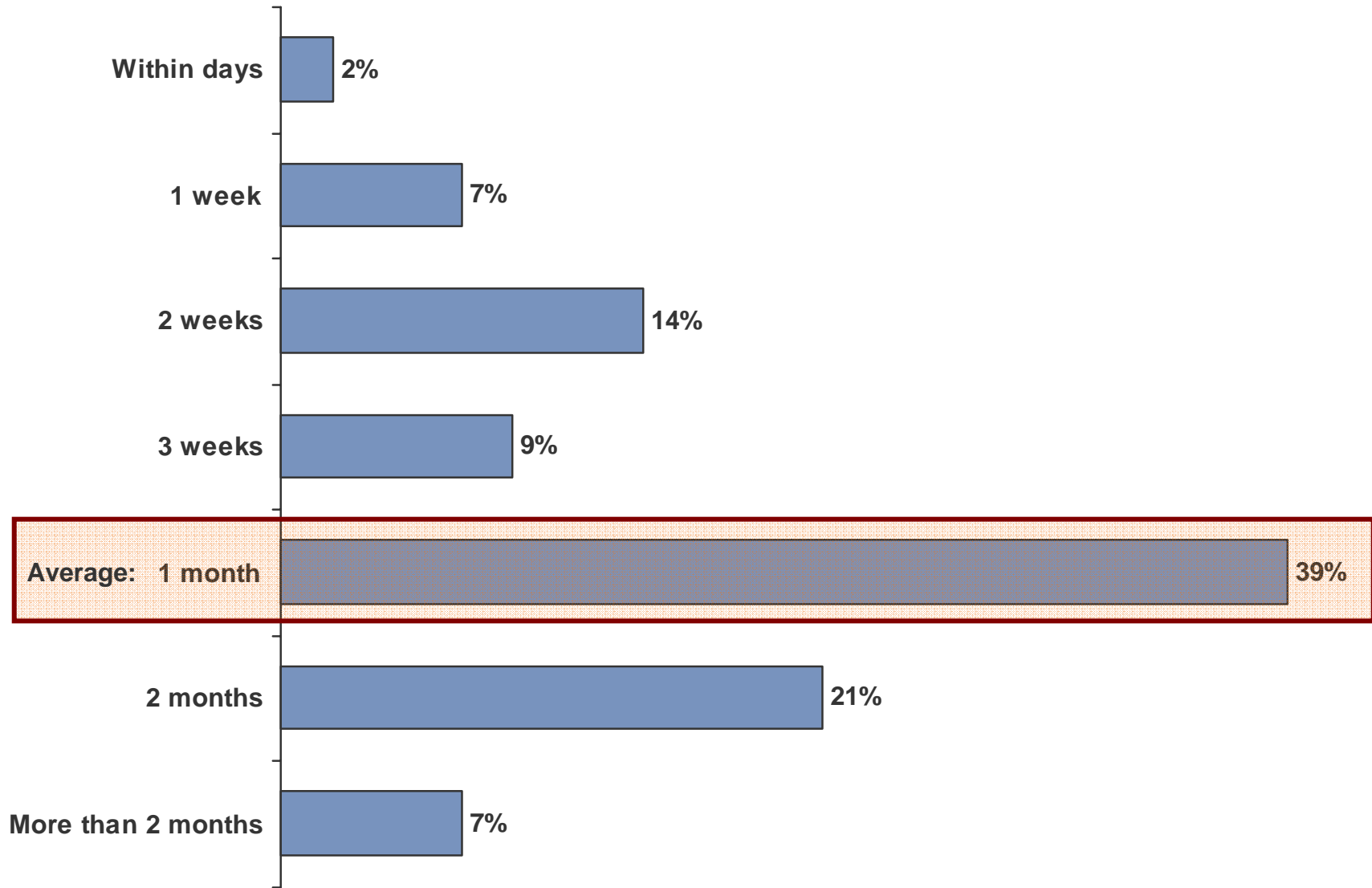
Q31. How frequently are trade promotions evaluated for promotion effectiveness?

% of Trade Promotions measured for promotion effectiveness: 53%



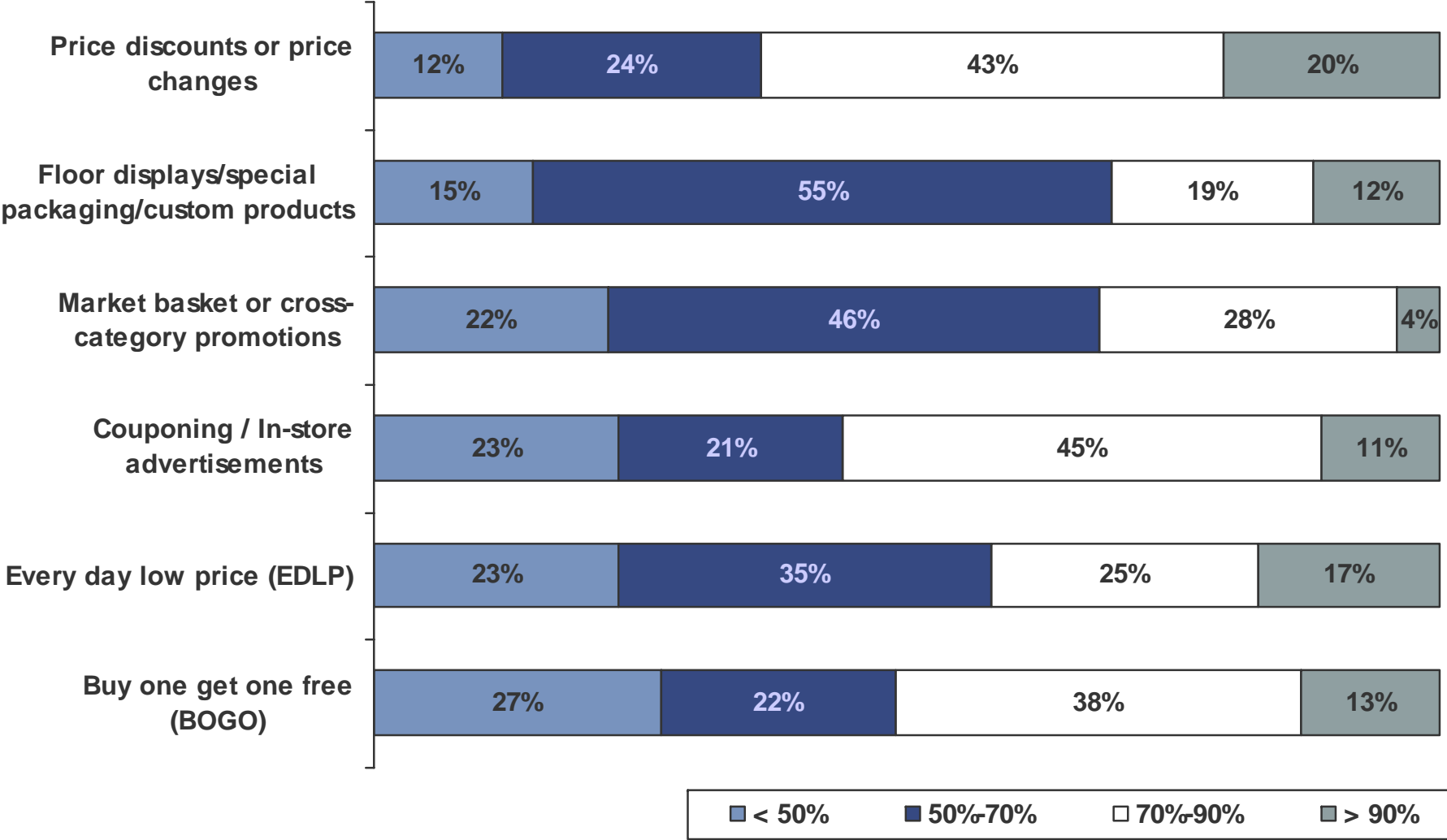
Time it takes to analyze trade promotion effectiveness

Q37. At the close of a promotion, how long does it take your organization to analyze trade promotion effectiveness?



Trade promotion compliance at the retail store level in the U.S.

What percentage of your trade promotions have compliance at the retail store level in the United States market?



Excluding mentions of "don't know"

TP compliance and effect on accounting

Q36. How does your evaluation of trade promotions effectiveness and retail trade compliance affect your accounting of trade fund administration under SOX compliance EITF issue 00-14 and EITF issue 00-22??

		We treat all promotions the same as a:	
		Balance sheet expense	Reduction in revenue
<i>We are trying to get better at understanding compliance of promotions</i>		44%	17%
<i>We really do not know compliance /We can not account for the cause and effect of trade promotions</i>		9%	21%
<i>We are not familiar with the SOX ramifications of trade promotion compliance</i>	8%		

Summary

- **Trade promotion to support retail trade programs is significant: 14% of revenue and growing.**
- **45% of organizations have simulation tools to understand base line lift, but the use of these technologies takes a back seat to *history* and *best guesses*.**
- **Only 53% of trade promotions are evaluated. And, when promotions are evaluated, it takes 4 weeks to complete the analysis.**
- **TPM organizational complexity has increased. Companies need to take a holistic approach to demand shaping.**
- **Trade promotion compliance and accountability to shareholders may change practices.**

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