Datasembly

Holding the Best Cards

How CPGs can leverage pricing intelligence to rebalance their relationships with retailers

WHITE PAPER

Intro

Consumer packaged goods companies (CPGs) have, despite efforts to hold their ground, been forced to cede much of their influence over category management to their retail partners.

There is no greater example of this struggle than in the incessant supplier/retailer tug of war over promotional pricing. Typically, CPG brand managers set up promo strategies designed to balance the twin imperatives of driving volume and maintaining profits. And yet, they often see their recommended plans undermined as retailers make sudden shifts in reaction to competitive jockeying by marketplace rivals and, in turn, return to the negotiating table demanding margin-killing pricing concessions from their suppliers.

Tensions and tough negotiations are nothing new to trade partner relationships, but one key factor has become evident:

> **CPG companies are finding themselves at a severe disadvantage because they lack access to real-time retailer sales and pricing intelligence.**

It's become like a game of poker in which only one party can see all the cards.

In this white paper, you will:

- Learn how CPGs can manage their trade spend more strategically by gaining mastery over competitive retail pricing data
- See examples of how manufacturers can use AI-based tools to leverage granular pricing data, thereby pinpointing exceptions and avoiding wasteful blanket spending decisions
- Learn how suppliers can regain the leverage they need and negotiate more authoritatively with retail

A Stacked Deck

How a retailer implements category management has evolved rapidly in the past decade. With the rise in consolidated buying power and technical sophistication, especially at powerhouses like Walmart and Kroger, retailers rely less on suppliers as data sources and are more active in setting the ground rules for negotiation. Retailers in many cases own the most valuable consumer data, have access to the most vital up-to-the-minute competitive pricing data, and use these to great advantage when pressuring suppliers for lower prices.

CPGs may strongly suggest pricing for a promotion, but whether or not to comply is at the retailer's discretion. The fact is, that depending on their competitive situation, retailers can go "off plan" and opt for greater margin.

Manufacturers and retailers are of course united in the pursuit of healthy sales volume and profit, but at a point, their objectives diverge. In some cases — for example, during new product line rollouts — CPGs may prioritize building brand equity and will do so at the expense of profits. Their retailer partners tend to play along on the premise that what's good for a strong brand is good overall for the category, but it's often the case that they will break from the brand promotion plan to take needed profits.

The growth of store brands in the U.S. adds yet another factor to the equation. Even regional chains have gotten sophisticated in recent years with their private label programs, and the likes of Target and Kroger are going all in with lines that often match or exceed national brand quality at a lower price. It becomes that much tougher for CPGs to sell a balanced trade program through, when competing with their customers' own brands, and that essentially gives retailers an ace in the hole in the negotiating game.

Retailers, in fact, have a good argument for taking matters into their own hands in this capricious, increasingly price-sensitive market. Today, promotional success hinges on constant diligence and the ability to take swift, dynamic actions in response to competitive data. At present, retailers are generally in a much better position to make these informed, tactical decisions, but keep their cards close to the chest.

A CPG's efforts at targeted pricing, by comparison, can be clumsy and poorly informed. While they may have loads of syndicated data, they typically do not have real-time access to localized competitive pricing data, nor the ability to draw out the granular insights needed to guide their retail partners through a successful promotion by today's standards.

Time spent on promotions & trade spend accounting

Salesperson:
25% of time

Brand manager:
30% of time[1]

Lost in the Shuffle

Despite the many data insight tools Category Managers have, such as predictive analytics, AI and other forms of automation, there is still a high degree of human-to-human gamesmanship involved in negotiating with modern-day retailers. The haggling may keep work life interesting, but the process is anything but efficient.

At the end of the 20th century, It was estimated that 25 percent of a CPG salesperson's time and 30 percent of a brand manager's time[1] was allocated to promotion and trade spend accounting. While automation and technology may have slightly decreased the time, CPGs are still caught in a constant cycle of contested claims and maneuvering, and increasingly get lost in the shuffle as dominant retailers go head-to-head with their competition in regional pricing battles.

Trade promotion is still one of the most important assets in a CPG company's arsenal, and is typically the second highest line item expenditure on the P&L[3]. Assuring these funds are well spent is a fundamental part of an account team's job. Yet, despite untold hours on the web scouring retailer sites and driving out to stores for price audits, many lack the consistency and depth of data they need to counter a customer's claim that they are getting underpriced and outsold by a competitor in their market.

Further, the lingering effects of the pandemic on the economy and sources of supply have put manufacturers under intense pressure to raise their wholesale prices at a time when retailers are earnestly trying to keep prices steady for a consumer base hit with high unemployment and an uncertain financial outlook. Economic pictures and competitive situations change region by region and neighborhood by neighborhood.

To remain vital as category partners, CPGs can no longer offer broad-based, blanket promotion strategies — they need to help retailers make data-driven pricing decisions with surgical accuracy.

In 2019, nine of the 10 largest CPG manufacturers announced price increases, citing inflation and margin pressure.[2]

Raising the Ante

Most retail chains still rely heavily on promotional funds from manufacturers. That may seem odd considering how much control retailers have taken over categories, but it speaks to the primacy of price as a motivating factor for consumers. With shoppers now proficient at doing quick price comparisons online, even chains like Whole Foods, which built their brand identities on quality and selection, now find they need to convince shoppers of their price competitiveness. Given the ubiquity of product from store to store and the increasing ease of online ordering, many retail operators are competing almost exclusively on price. When prices hit rock bottom, retailers seek out an additional advantage, and that's when trade promotion dollars come in.

Trade spend takes many forms, from promotional allowances to targeted rewards based on meeting certain allocated shelf space requirements. CPGs may set up bonus structures dependent on incremental sales resulting from a specific manufacturer promotion. When manufacturers can tie incentives to compliance in a clear manner — rewarding promotional activities that benefit their brand and the category — they feel they're getting practical value from the trade spend and hope the retailer recognizes that benefit as well.

But business decisions are rarely that simple. Retailers juggle offers from multiple vendors, weighing their decisions against the impact on store brands and regional favorites. Even when accepting a promotional program, retailers are continually checking competing chains to make sure they can claim "lowest prices, every day."

For their part, given the ever-changing dynamics of the market, CPGs are finding it increasingly challenging to track promotional performance with the resources on hand. In an effort to more efficiently manage promotions, some CPGs are resorting to reducing the number of promotions they run each year (say, from 20 to four or five). In other words, instead of improving their understanding of pricing dynamics so they can offer greater flexibility to their retail partners, CPGs are limiting their promotional activity to avoid the complexity and reduce the peaks and valleys that result from promotion cycles.[4]

"When you look at all aspects of the trade spend issue, the most important missing factor is getting real time information related to all trade spend activities so changes can be made and measurable results can be viewed and tracked."[4]

- Karl Edmunds, Vice President, Salient Management Company

Drawing Cards from the Deck

CPGs will continue to struggle in their relationships with retailers who so frequently work "off- plan" to the detriment of product sales and profitability. As long as retailers hold all the cards in deciding when to under-cut and when to shave off margin, CPGs will be forced on the defensive, going from one reactive situation to the next and failing to gain a full picture of how their promotions impacted sales — and how their retail accounts actually performed with the promotions.

Syndicated data, broadly speaking, holds the promise for CPGs of regaining the necessary measure of control over their brand performance. The real key to strategic pricing intelligence, however, lies in precisely filtering syndicated data in the most useful and efficient ways. That method is known as provisioning.

When data firms provision data, they grant and revoke access at a finely-tuned level to individual subscribers, segmenting permissions by channel, user or user group. The art to successful provisioning is in employing the right methodology and understanding of pricing practices to ensure that the data insights are segmented in ways that make them truly valuable to CPGs.

Here's an example to illustrate the need for granular pricing insights:

Example One: The Price Guarantee

The Challenge

XYZ Wholesale Clubs had an agreement with Big Fizz soft drinks stipulating the brand's products would not appear at a lower price in competing ABC Stores, located within a 10 mile radius of its own stores, for more than a 12-week period. XYZ saw the agreement as necessary to upholding its low price commitment to its members. ABC Stores, however, subsequently conducted a price roll-back sale that XYZ claimed lasted longer than the agreed 12 weeks. XYZ therefore demanded a trade spend as compensation from Big Fizz, per their agreement.

The Response

Using a proprietary price intelligence application, Big Fizz was able to get views of the daily prices being charged for its products at individual area locations. Data showed many of the stores offering the lower prices were outside of the specified 10 mile radius. Further, the ABC promotion lasted only two weeks beyond that allowed period. Big Fizz was able to greatly reduce the amount of trade dollars it paid to XYZ.

Without accurate data on daily prices at specified locations, the CPG would have been in the dark and forced to pay up as if the violations occurred across the entire locale. Such data solutions can be very effective in combating the gamesmanship that retailers use to generate margins where they simply don't exist.

Example One illustrates the importance of data that is granular enough to address such challenges, but scale is equally important.

As a CPG brand builds reports to review its trade spend across multiple states, regions and countries, data applications tend to naturally aggregate the information into a rollup form, to make it easier to digest. However, more advanced provisioners, such as Datasembly, are able to retain the granularity to empower CPG decision-makers to drill down by account, channel and UPC activity at the store level.

Data on competitive retailers makes it possible for CPGs to take a deeper dive and identify accounts that are "going rogue," and provide insights to build the groundwork for more productive — less adversarial — working relationships. Better data allows trade partners to have more substantive and authentic conversations without resorting to anecdotes and hearsay.

Example Two: A Sharper Response

The Challenge

Good Morning breakfast cereal was contacted by one of its largest, national accounts, Grade A Foods. The complaint: a major rival, ABC Stores, had significantly lowered the price of the brand's cereal. Grade A therefore demanded additional trade spend so it could promote the product line in its stores and remain competitive.

The Response

Good Morning used a pricing intelligence app to verify that ABC Stores' price point was indeed lower and to confirm the activity was in the immediate area of Grade A's stores. However, the app also gave Good Morning visibility into the fact that, before ABC lowered its prices, Grade A's prices were not nearly competitive — set at least a dollar above that of ABC. The app gave Good Morning's account team the insights it needed to have a constructive conversation with Grade A, versus automatically placating them with additional trade spend.

Without the ability to counter retailers claims, as we can see by these examples, trade spend can essentially be an on-demand service, leading to billions of wasted dollars and massive inefficiencies each year. But having snapshots of real-time numbers and promo events in the market allows CPGs to have more informed, balanced conversations with their accounts about upcoming strategies and additional spend.

Finding Your Strong Suit

Global consumer brands waste more than $50 billion in digital marketing and trade spend every year.[5] Clearly, something's broken.

CPGs traditionally make pricing and promotion decisions premised on aggregated syndicated data, syndicated panel measurements and historical activity. Based solely on these methods, CPGs are not able to see how much of the trade spend that they approve is being either wasted or used in ways that fail to effectively promote the brand.

When CPGs spread their trade dollars around with a blanket approach, they miss out on opportunities to support their accounts with more nuanced tactics. A brand might, for example, offer trade incentives that reward the sale of new product line extensions, mandating at the same time that the stores maintain existing shelf space for their established SKUs.

Without complete data to drill down into specifics, it's nearly impossible to predict which stores would benefit and, once implemented, how to check for compliance.

CPGs with powerful pricing intelligence tools build stronger negotiating positions, and accurate data gives them the option of "laying their cards on the table" to work in genuine partnership. CPGs should look for solutions, like Datasembly's platform, that offer data granularity with respect to location and product pricing in a user-friendly web application that saves countless hours mulling over random samplings and complex spreadsheets.

With the right data in hand, CPGs can reestablish themselves as trusted advisors and guides in their accounts' competitive battles, fortifying relationships through conversations that are strategically meaningful and locally relevant.

Data Syndication:

The process takes data aggregated from millions of points and products and feeds it into an application that allows for the accurate and timely display of insights that help CPGs make pricing and trade spend decisions with their retailers.

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[2] Florio, Ray. "Pricing Elasticities: CPGs Renewed Focus on Pricing", TotalRetail
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Datasembly

Datasembly's proprietary technology collects data on billions of products on a weekly basis, then provides that information as customized, shareable insights to brands and retailers.

This hyper-local, real-time data eliminates the need for manual or averaged data; instead providing the specific numbers needed to empower CPGs to make well-informed, brand-supportive decisions.

Datasembly technology makes it possible to identify real-world problems and deliver actionable insights that save time, reduce unnecessary trade spend and improve efficiencies.

Contact Datasembly for more information or a demo.