

IMPLEMENTING RGM SYSTEMS & CHANGE: HIGHLIGHTS

Solutions for Top Challenges
Facing CPG Companies

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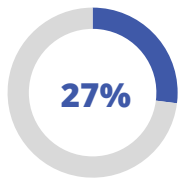
INTRODUCTION

WHY THE TOPIC

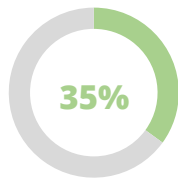
Change Management is a topic that is heavily discussed in many professional capacities. While many conference topics focus on change management in regard to organizational design and pivoting business strategies, we would argue that keeping change management in the forefront of Trade system implementation is paramount in achieving expected ROI.

RGM related systems are especially complex as they intersect across most functions within a company, including at least sales, finance, customer service and demand planning, not to mention they represent a significant budgetary investment. Despite the significant time devoted to such implementations, companies still don't utilize their RGM system capability as they desire (see chart below).

UpClear and The Partnering Group came together to focus a discussion specifically on Implementing Revenue Growth Management Systems and the Change Management they require. For any consumer goods brand that is intending to implement a trade promotion management platform, this series had some key findings and insightful discussions, the highlights of which are showcased below.



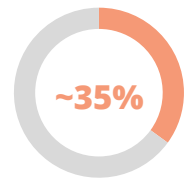
Still don't integrate the general ledger to the enterprise system



Of the systems do not calculate retailer-based analytic measures



Find system settlement capabilities very satisfying



Do not incorporate any external data into the system

Source: TPG Industry survey Jan 2020

Key Takeaways Overall:

- 1 |** The regular review and internal alignment around business processes are the foundation upon which systems (RGM or otherwise) lie and are critical to successful change management and system implementations.
- 2 |** Taking time to draft a plan for the upcoming change and all anticipated to-do's and challenges is a proactive way to save time and keep on track.
- 3 |** Taking time to understand and properly set up Master Data as well as volume Baselines will provide the most accurate understanding of your trade promotion performance.
- 4 |** Take the time and maintain focus throughout all phases of the implementation, especially the final ones such as external data integration, optimizing the settlements process, and anticipating future analytics needs.

With these takeaways in mind, we produced this recap or checklist in the 6 areas of change we discussed in the webinar series. The webinar series videos can be viewed through either the UpClear or The Partnering Group Websites.

COMMON ISSUE #1

INABILITY TO CHANGE DECISION MAKING

Although technology has advanced over the years, CPG companies still aren't satisfied with their ability to impact the business with the information that they have in their possession.

They are looking to improve Total Customer Investment; In store, On-line and in improved Cost to Serve programs (e.g. Gain Distribution, Drive New Products, Negotiating a Trade Deal, Crafting a Killer Sales Story, develop Digital Commerce Solutions).

We find two major impediments to their own ability to realize this. One is that clients often believe that their organization lacks Skill to make decisions that help them realize their goals. We see often that what is lacking in fact is the Will to actually execute those decisions for fear of retribution by the customer or internal factors causing indecisiveness. We see clients resort therefore to continuous changes in strategy since they believe that their current one is not working. When in fact, it hasn't been executed and/or measured.

The first major element of change is to make sure that organizations are clear about Decision Making. In the next 3-5 years as customers become more concentrated, Strategic Thinking, Leveraging Technology, and Financial Acumen skill sets along with some other major mindset changes will be increasingly needed.

CPG Companies have two major business-related challenges that they are trying to address:

Immediate Commercial Success by improving customer investment practices

Long Term Capability enhancement – not a one-off approach but a sustainable one



Increasing

- Financial Acumen
- Negotiation
- Developing Test & Learn Plans
- Creating statistical models & algorithms



Significantly Increasing

- Strategic Thinking
- Storytelling
- Identifying Insights
- Leveraging Tools & Technology
- Segmentation & Targeting

The work underpinning these skill sets will also need to be defined clearly and differently in order to stop the spiral of reworking Strategy and the belief that this will break the cycle of what is really an execution-based issue.

Process should be documented to include steps, ownership, inputs/outputs and decisions rights. Job Descriptions should then be altered to reflect the new process. Key performance indicators, Role Behavioral competency requirements and Process audits should be established for the annual performance cycle.

Source: TPG Industry survey Jan 2020

Establishing bonus incentives, reviews, compliance programs, auditing of the new work and career pathing are the types of deep components that need to accompany this type of change. These practices will ensure transparency of what is working and what isn't and where the bottlenecks are personnel wise.

COMMON ISSUE #2

IMPLEMENTING CHANGE

How do you ensure that your investment in new technology enables your organization to deliver intended RGM outcomes?

We recognize that when organizations build enabling systems, there can often be gaps between the vision and actual change. Here are some critical areas to keep in mind to avoid these common issues that cause gaps in vision vs execution:

- 1 | Confirm System delivery is consistent with design
- 2 | Train the team beyond point and click
- 3 | Build skills to leverage new capabilities

So how do we bridge this gap?



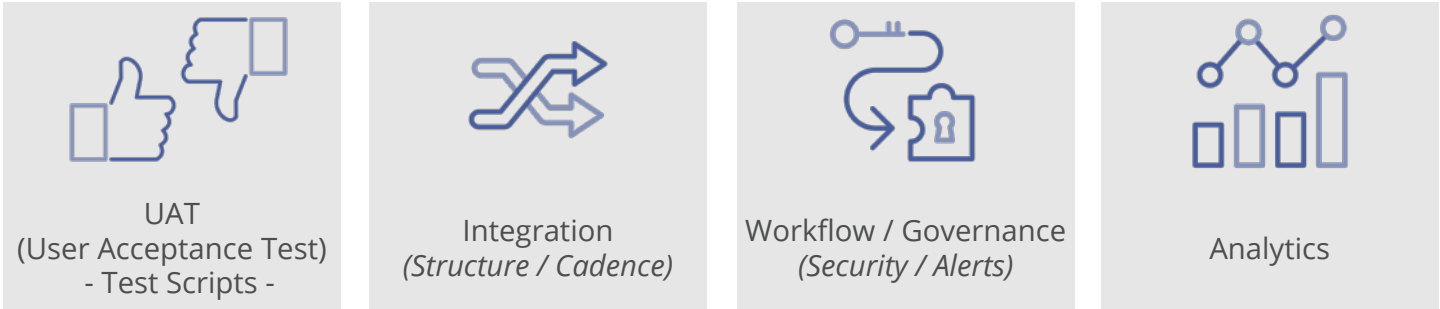
These 3 issues are typically governed by a project plan, and no doubt the project plan will deliver a system. However, you may fall short of delivering lasting change, particularly if the project plan overemphasizes the “how” and forgets the “what” and “why”. Meaning, the new system design overemphasizes administrative/accounting tasks but doesn’t enable any new ways of working. Given these risks, we advocate that change management be embedded into system design and rollout plan.



How to Overcome Common Issues between Vision & Reality

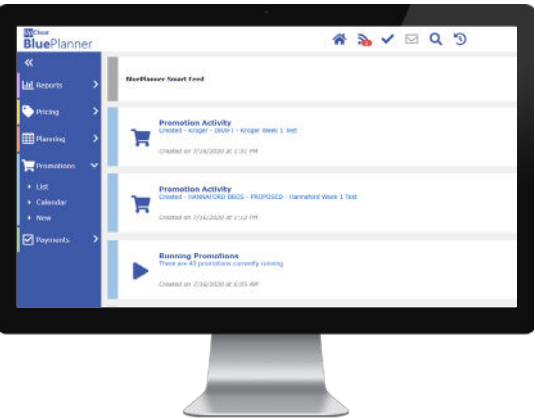
Confirm System Delivery

The chart to the left depicts typical project steps to confirm system delivery beginning with User Acceptance Testing (UAT) all the way to analytics. To drive change management, we advocate that the core team of functional experts and super users, particularly from the sales function, get engaged at UAT to not only test the system but also begin to serve as internal champions of change on how the new system enables new business processes.



New Processes > Functional Requirements > Configuration Document

Integrated Business Planning | Consensus Forecast | Effective Promotional Planning | Settlement
Playbook Development | Baseline Development | Incremental Funding | Compliance | Audit



Train the Team

Let's face it, technical training for a new system roll out can be daunting and tedious, particularly for a sales organization. It's important that the training be very targeted and deliberate in introducing new processes WITH business context and that the sessions are engaging and fun. It's imperative that the Subject Matter Experts (SME's) serve as trainers connecting the "Point and Click" with business context while emphasizing the "what" and the "why" of a particular work process. Providing ongoing resources such as video on demand and work instruction booklets ensures that team is poised for success.

Build Skills

It's imperative that organizations think beyond the system launch to achieve excellence. Building organizational capabilities goes beyond technical training as users must be able to translate the new insights into their selling proposition and deliver better business outcome. It's an opportunity for organizational assessment of factors that will change their internal thinking and mindset, how are roles and functional competencies impacted, what knowledge is required to better utilize the information and insights and assess the capability gaps to address in targeted skills training.

Capability Area	Today	Tomorrow
Customer Segmentation	<ul style="list-style-type: none">Not utilized today	<ul style="list-style-type: none">Distribution of resources (people & funds) will change
Data Integrity	<ul style="list-style-type: none">Mixed versions of the truth - due to many platformsLittle Net Sales visibility	<ul style="list-style-type: none">Need to follow consistent hierarchy to ensure master data alignment
Analytics	<ul style="list-style-type: none">Limited use due to manual nature of producing it	<ul style="list-style-type: none">Pre and Post event execution across events
Compliance	<ul style="list-style-type: none">Not utilized today	<ul style="list-style-type: none">Higher adherence to CAPs (Pre and Post available)Fewer customer exceptionsSystem aided
Planning	<ul style="list-style-type: none">Late for select channelsLittle Net Sales and Latest Estimate view	<ul style="list-style-type: none">Advanced to conform to full year viewDaily updates of Gross, Trade and Net sales
Bracket Pricing	<ul style="list-style-type: none">Many exceptionsMany fines and fees, unchecked	<ul style="list-style-type: none">Bill pricing to aligned bracket breaks (Customers likely to see higher pricing)Conversations about a better solution will need to take place
Total Customer Investment	<ul style="list-style-type: none">Top line dollar focus	<ul style="list-style-type: none">Bottom line focusNeed to build financial acumen

COMMON ISSUE #3

CHANGING MASTER DATA

Master data is usually one of the first items discussed with a new trade system, and often one of the hardest to sort out during the project.

However, once it is sorted out, you must create a mechanism to manage change over time. Without this, your system and processes will start to fall apart and hinder your ability to realize the benefits. Three key areas to focus on are customer, product and pricing.

Don't assume that the data structure you have today is the data structure you need tomorrow.

CUSTOMER

For customer setup, you need to evaluate if you have the right planning levels defined and aligned between your TPM system and ERP. This includes any indirect ship customers that may not exist within your ERP system. Just because you can manage all customers, does not mean you should – figure out your 80/20 and group smaller customers together for planning activities.

If you use Distributors for a route to market, three key questions you will want to evaluate are:

1. Where do you want to manage the budget and spending?
2. How is the volume managed with indirects?
3. Do you have the relationships defined between distributors and indirects properly?



Customer



Product



Pricing

PRODUCT

For product setup, define whether you will plan at the Promoted Product/Price Group level and if so, where will these definitions be owned, how much data entry is required and whether you have enough detail to accomplish additional processes such as delivering a forecast to demand planning.

PRICING

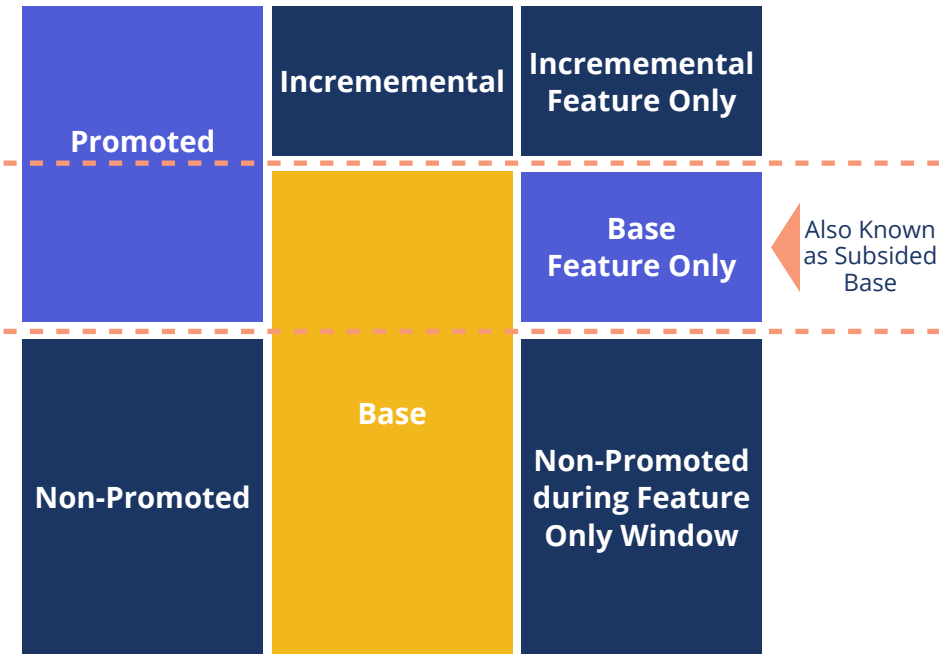
Ensure you evaluate where your customer prices are set, and if there is potential to align pricing more consistently across different routes to market. Also, define whether every day low price/cost is embedded within price or defined more explicitly as trade spending.

COMMON ISSUE #4

WHAT IS THE BASELINE AND WHO MAINTAINS IT

Baseline management and use is a critical component of an RGM capability. Before discussing roles and responsibilities, the bigger issue most face is defining what it should be. Why is this so important?

It's important because it impacts how Return on Investment is defined and calculated. Base volume was always meant by syndicated providers to define the "Expected Sales without Promotional impact". That's very different than Non-Promo volume. Base is intended to tell us which of our current buyers are being rewarded by promotional activity, but would have bought the product without promotional incentive.



This is critical to understand. Using non-promoted metric or an internally altered base means we are dismissing the idea that our shopper's buying patterns, competitor activities or other market factors had anything to do with purchases. Using non-promoted and/or most demand generated shipment baselines increases the portion of the promotion that is considered incremental which artificially inflates ROI performance. Additionally, we see clients generate elasticity and merchandising co-efficients off of syndicated data, then apply them to baselines that aren't generated from syndicated data. This in effect mixes two different methodologies.

Issues with the Shipment Baseline

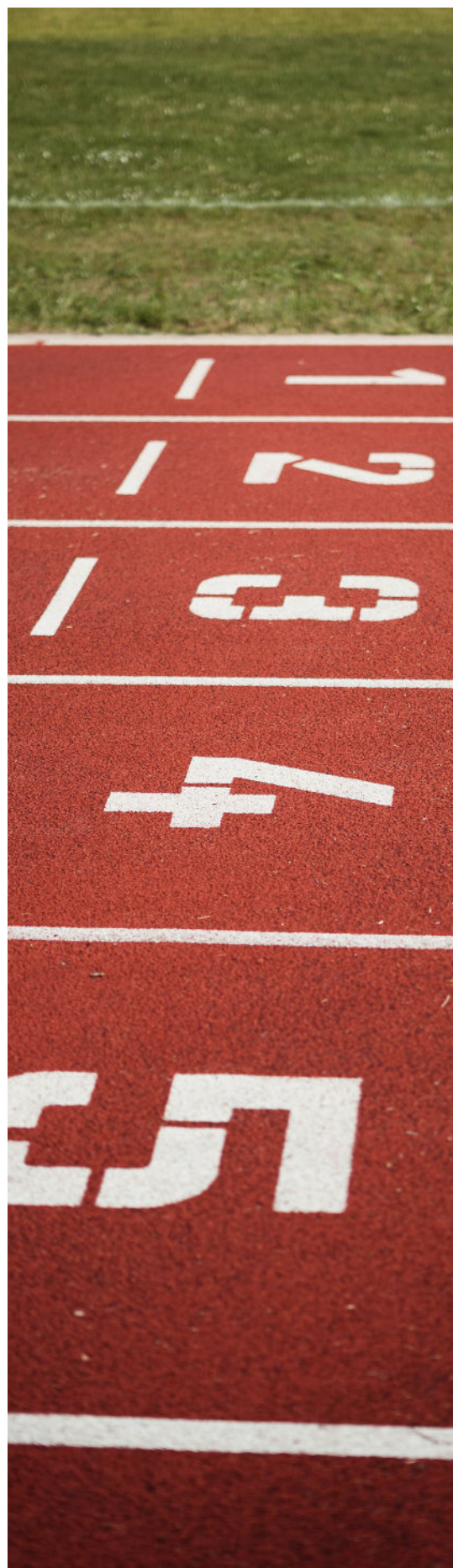
- Inability to explain internal shipment baseline vs. POS baseline in customer conversations
- Update interval - Functional teams disagree as to how often base should be updated. POS is on a regular cycle and self adjusting
- Shipment vs. Consumption lag - a shipment derived baseline does not reflect lag time of Company to retailer shipment
- Who is the decision maker for changes to the future baseline - Demand Planning, Sales, someone else?

Despite the issues with the syndicated baselines, we feel that clients should use the POS base in the planning of the business intervening modestly at times to correct for things like negative incremental weeks. It provides a much more homogenous approach to ROI and other trade return driven calculations.

Therefore, our suggested better practices for managing base would include the following:

- 1 Use Syndicated Baseline as the preferred starting point, qualify the anomalies
 - Use it for post-event analysis
 - Maintain connection to reported data for customer conversations
- 2 Model baseline for non-syndicated accounts using pure shipment data
- 3 Assign baseline adjustment & governance to one group
- 4 Develop an EDLP/EDLC baseline & payback approach
- 5 Maintain Separate Demand & Consumption forecasts within the system, with visibility to both

Build an organizational change model that embraces management of the baseline centrally in order to establish good company working knowledge about how it is used and deployed in planning.

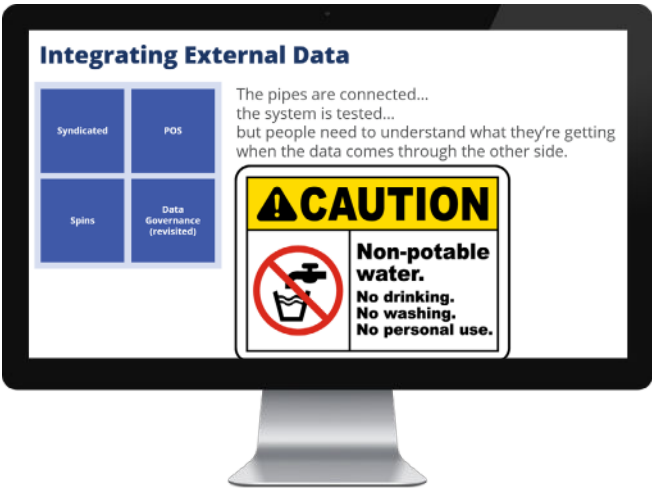


COMMON ISSUE #5

INTEGRATING EXTERNAL DATA

The good thing about setting up trade systems is you can more easily integrate external data

However, just because the pipes are connected does not mean you will get the results you expect. Whether you are bringing in syndicated data, point of sale directly from retailers, and/or secondary shipment data from distributors, you need to prepare to make sure you get the most out of the data over time.



Syndicated (and POS) Data

When planning to integrate Syndicated data, you need to consider three key aspects:

What level is your internal data vs. syndicated data

Promotion timing vs. syndicated data timing

Managing lag between when the data arrives

Customer data for trade systems is often oriented around a planning customer level which does not always align with how the syndicated data is provided. Sometimes it is as simple as rolling up the data to line it up, but sometimes the data does not line up cleanly.

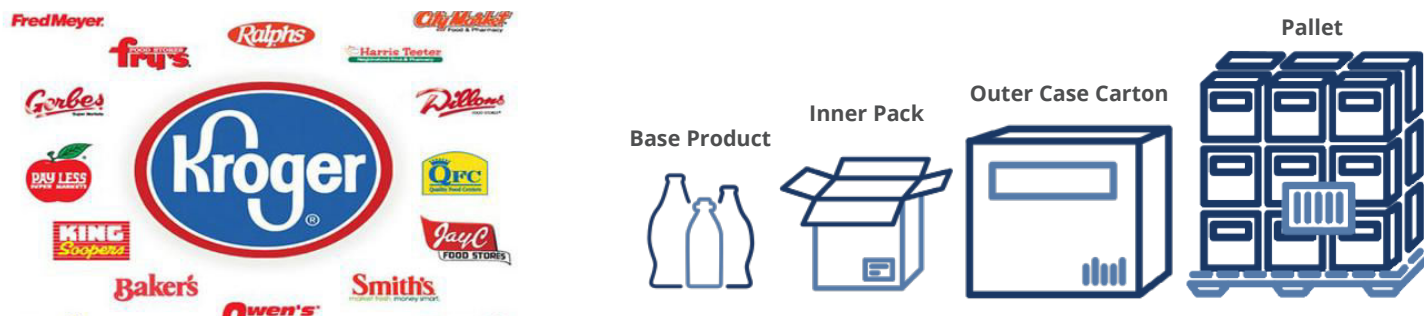


The key challenge with products is that syndicated data is captured at the consumer UPC level while the shipped product is at the Case UPC level. While generally this is a one to one relationship and just requires a unit of measure conversion, other considerations may be required if multiple pack/sizes are shipped at the same time, especially a display or pallet to support a promotion.

What level is your internal data vs. Syndicated Data

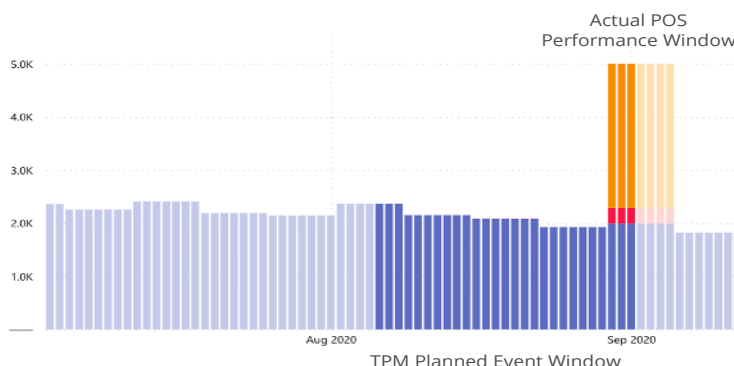
Customer Level: Planning Account vs. Market Account

Product Level: Case UPC vs. Consumer UPC



Syndicated data timing and lag times with data availability need to be considered when using actual POS data to measure efficacy of promotions. Misalignment can make a promotion look better or worse just because the data is not within the time frame of the promotion period as you expected. Loading distributor data can be essential to truly understanding how your product is flowing into the retailer, but unlike retailer data, there can often be additional oversight needed on the data mapping and cleansing.

Syndicated weeks are often not aligned with retailer promotion timing



The lag time of data availability can often lead to the need to make a call on results based on projections before actual secondary shipment data comes in. One of the most critical questions to evaluate for secondary shipment data is whether you will use it as the actual measure of promotion data or whether to create percent splits from the distributor direct ship information to allocate down to the indirect data. Said another way, will results and reporting in your trade system be based on when your indirect retailers acquire your product, or will it be approximated based on when you recognize the revenue with the distributor.

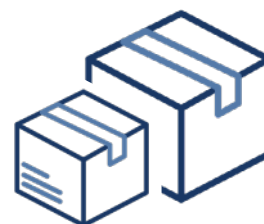
Distributor Secondary Shipment Data



Quality & time it takes to manage



Lag time related to shipments




Percent split of actual shipments vs. actual secondary shipments

COMMON ISSUE #6

OPTIMIZING SETTLEMENTS


Common Symptoms of Poor Settlement Process



Manual Financial Accrual

Massive Spreadsheets


Historical/Trend Based



High Resource Requirements

Multiple Functions Involved


Lack of Data Integration



High Deduction Balance

High Aged Deductions

“War Room” Exercises



Lack of Transparency

Financial Surprises

Audit Risks

If you’ve been around long enough in CPG, particularly in a financial role, you’ve experienced some of the results of a poor and inefficient settlements process as illustrated in the chart. An effective trade management environment closes the trade cycle from strategic development of trade plans aligned with product and customer segmentation and strategies, through store execution and ultimately validating customer payments through the settlement process. It’s the last but critical step in reconciling the forecast of the event vs actual results.

Leverage TPM System Capabilities

One of the key change management activities to conduct prior to system design is to document current processes and identify ineffective and redundant procedures that neither adds to or support the overall effectiveness of controls or workflow. This also allows the organization to step back and evaluate how the new system supports best practices. There are many areas to explore as you begin to shape the future including roles of agency partners and third-party organizations that specialize in deduction management.



Settlements Best Practices

As we've discussed, implementing change is not just about a new system. It requires an organization to holistically evaluate all processes. Common pitfall is that the organization focuses all its change on the front end of planning and neglects the settlements process. Here are some best practices to keep in mind as you embark on your TPM change management journey:

- Don't forget to ensure settlements process change is embedded and activated during design
- Leverage system controls and workflow in the platform and don't overengineer
- Close the loop to release your liabilities
- Treat the TPM system as a subsidiary ledger to your GL by recording financial journal entries directly



Best Practices

- Ensure process change is activated
- Leverage System Controls and workflow
 - Don't over engineer
- "Close the Loop" / release the funds
- Full Integration, include General Leger



Change Management

- Settlements are not just a finance issue
- Sales team financial accountability
 - Treat TPM system as sub ledger
- Leverage partner core competencies

As we think about this web series on change management, we would focus you on these key takeaways:



Distinguish between
**Future Need vs.
Current do**



Address Master data
governance &
accuracy **issues**



Get the **right people**
involved up front



Ensure competent
Project Management



Do not be rigid
with Master Data
**Have vision of
broader needs**



Thoroughly Define
Future state processes



Make **Decision**
Rights clear and
future adjusted



Align System
Capabilities with
client view
of the world

As you think about installing your new system capability, please remember to double or triple down on your business change management approach versus the effort you are thinking to technically train your team. It will pay big dividends post launch and ensure Return on Investment for your business.

THANK YOU TO THE TEAMS THAT MADE IT HAPPEN

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Rajeev Prabhakar

✉ rprabhakar@upclear.com

- 20+ years experience across the full RGM/TPM implementation lifecycle.
- Foundation in CPG management consulting with PwC/IBM, software domain expertise with Siebel/Oracle, and over 10 years with Clorox across technology enablement, trade promotion optimization, and sales planning.
- Responsible for ensuring North American UpClear clients remain successful with RGM using BluePlanner.



Chris Than-Win

✉ cthanwin@tpg-mail.com

- 30 years+ of industry experience
- CPG Retail, Manufacturer & Software: UDF, Hillshire, Perfetti, AFS, Anju
- Practitioner Knowledge: Finance (CPA), Sales Operations, Trade Marketer (FS & Retail), TPM Software
- TPG Experience: 2+ yrs.; 6+ FS and Retail manufacturer engagements



Don Baker

✉ dbaker@tpg-mail.com

- Retail and packaged goods; Jewel, Borden, Georgia Pacific, Diageo and Nestle
- Practitioner Knowledge: Experience as a Salesperson, Trade Marketer, Pricing Manager
- Designed, sold and maintained trade plans for Walmart, Kroger, Safeway, Albertson's, Supervalu, AWG and many others while in Sales roles
- 50+ Trade engagements in 8 yrs. with TPG, North America and Europe

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The Partnering Group, Inc. or use the URL linked below
tpginfo@tpg-mail.com
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