

## Trade promotion—Time to stop giving it away

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As with many financial incentive programs in today's challenging world, Trade Promotion has evolved from being an investment that grows the business, to that of simply a fund that is paid out, and at best, maintains the status quo - an entitlement. Customers know the money exists, and they often tell you how they want it paid rather than what they will do to earn it or build the business.

According to industry reports, Consumer Packaged Goods companies spent \$115 billion dollars on trade promotions in 2008 - 15% of gross revenue. With often limited visibility and measurements on their business, 71% of companies reported that they had overspent on Trade Promotion. Did they? Or were they right on target? Many just don't know. In today's economy, where every dollar counts and efficiency is essential, exploring your Trade Promotion Management (TPM) process is a wise step in an overall plan.

In fact, it is common for companies to NOT have a grasp of the dollars being spent, or the results achieved from trade promotion. While most companies have people in positions with titles related to TPM, these people are typically not empowered to effectively manage or impact the results.

It is also a challenge for many companies to determine which customers are most deserving of its financial and human resources. How do you decide where to focus your valuable money, time and energy? All customers are not created equal, and revenue contribution is not the only relevant factor. It is important that you establish a process to segment customers by their value to your ongoing business.

So how is your company doing? Ask yourself a few simple questions:

- Does your trade spend deliver a Return on Investment? Do you know?
- Are you measuring *every* dollar invested? Note that customer "net pricing" or "special pricing" often hides reality.
- Does your sales team effectively plan, execute, and measure results achieved? Or does the customer "get your money, no matter what"?
- Is there a process in place to accrue, allocate and manage trade budgets?
- How are decisions made relative to trade promotions? Who approves? How long does it take?
- Is there a process in place to *effectively* handle claims and deductions?
- Is your organization paralyzed by the non-productive activities related to TPM?

There are four key components involved in implementing effective Trade Promotion Management:

### 1. Forecasting/Budgeting

Both the forecasting and budgeting functions involve collaborative decision-making from the executive level, finance, production and sales departments. Establishing your sales forecast is the first step toward managing trade promotion. This can either be a top-down approach based on a company growth goal, a bottom-up plan based on what your sales team forecasts for growth, or a balance of the two. Once sales objectives are determined, then a number of decisions need to be made around defining trade budgets:

- Should you set budgets at a straight percentage of sales? Or start with last year's budget and add (or subtract) funds? Or should you start from zero and build budgets?

- Will you allocate lump sum budgets, or will funds accrue based on shipments?
- What is the lowest level to which the budgets will be allocated – Division, Sales Manager, Product Group, Customer, Fund type, etc.?

Under every scenario, it is important that you also decide on the processes for trade budget reallocation and potential budget increases, as business fluctuations are inevitable.

## **2. Customer Planning/Promotion Planning**

Customer Planning is at the core of the TPM process. Your sales team must deeply engage with their customers to ensure budgets are being spent on activities that are consistent with both your customer's and your company's objectives, strategies and marketing plans. Often, this is where the most change leadership is needed, to rid your organization of the tendency to "do things the way they have always done them" or to not "confront the customer". Leaders must focus on activities that actually drive incremental business.

## **3. Commitments/Contracts**

Your sales, finance and legal departments need to be clear and consistent regarding policies on customer commitments, and the associated contracts that support them. When customers and sales are on the same page relative to deliverables and expectations, you are more likely to ensure satisfied customers and lasting partnerships.

## **4. Claims/Deductions Management**

Establishing clear policies and implementing technology to support the processing of claims and deductions will help to reduce unproductive time spent on these activities and reduce invalid claims. Getting this functional area operating efficiently will save your company a significant amount of money as well as enhance relationships with customers. If there is not a clear process for this, abuses of the system are far more likely to occur.

While it is imperative that your sales team remains focused on setting goals and getting the greatest return on your investment, Trade Promotion Management is far reaching. TPM affects the entire organization – from the executive level, to sales and marketing, to finance and accounting, to IT and production. Decisions on TPM that were once attached exclusively to sales must be shared in order to effectively *grow* your business.

It is critical that there are established processes around each of the four components and the entire organization understands how they work together. By actively engaging each function of the organization, trade funds can be more effectively allocated and better planned to ensure there is a payout on your investment. Deductions will be minimized and invalid claims not paid, thereby increasing overall productivity. And of course, customers will now be aligned with your company's goals to ensure they are "earning" their funds by selling *incremental* cases and delivering *incremental* revenue as a result.