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Trade spend evolution:
Driving higher sales without generating more volume

Responding to an evolving market

The consumer packaged goods (CPG) industry has endured several challenges in recent years, such as shifting consumer preferences, international trade disputes, and increased market consolidation. It can be challenging for these companies to adjust their go-to-market strategies to remain competitive, and many CPG companies are attempting to tackle these threats head on, often at the expense of brand equity.

In response to this ever-changing market, trade allowances—or the discounts provided to retailers, wholesalers, and operators—have risen steadily since the mid-2000s for most CPG companies. Trade spending continues to rank second, behind COGS, as a cost of doing business.

Getting the most out of trade spend is critical to paving the way to increase sales and grow the bottom line. Without transforming current trade practices, a CPG company is forced to rely on deep discounting to achieve annual top-line targets.

This situation is aggravated in organizations where the sometimes tedious, yet necessary administration of trade is poorly managed and leads to trade leakage and EBITDA erosion. CPG firms may seek to move away from a transaction-based approach to manage trade and instead partner within the broader organization, leveraging leading capabilities and technologies, to enable an enterprise-wide approach to profitable sales growth.

In an effort to gain new consumers, retain market share, and remain competitive, CPG companies are investing in new technologies to improve operations and are seeking to grow their top and bottom lines through acquisitions of companies or brands with on-trend consumer offerings.

Redefining the boundaries of trade management

Rebuilding and optimizing trade spend to deliver higher levels of profitable revenue without necessarily increasing volume or sacrificing margins is receiving more focus than ever from CPG companies.

This is evident in the way in which the role of the sales manager is evolving, with the market demanding increased financial, analytical, and data-driven capabilities versus traditional relationship management. In this new reality, a sales manager brings about a holistic understanding of how an organization functions and how it delivers performance, not just following the age-old mission to sell volume at all costs. In leading organizations, such abilities have enabled sales managers to invest trade spend in association with promotional plans and ROI analysis, and even by closely linking trade investments to sales forecasting.

The need to transform, optimize, and augment the use of trade spend is a necessity now more than ever. Increasing its maturity will deliver greater levels of profitable revenue.

Up-skilling trade management

Transforming how trade spend is leveraged should be top-of-mind for CPG executives. To fuel EBITDA growth, they should shift trade spending's role from an expense used to drive top-line revenue to an investment tool used to increase gross margin through optimizing sales and price. We have seen CPG companies employ several best practices that lead to improved ROI and profitability:

Trade as an enterprise initiative:
Trade promotion management is no longer a "sales-only" obligation, but rather an enterprise-wide objective—sales, finance, marketing, and supply chain are all key stakeholders and participants in effective trade management. Trade can function as a versatile investment if comprised of intelligence on consumer insights from marketing, ROI benchmarks from finance, and customer procurement considerations from supply chain. This sort of collaboration can lead to many benefits, such as decreased pressure on the supply chain as revenue increases without driving volume, and greater transparency and less volatility on sales activity for marketing and finance to effectively manage the P&L.

Zero-based trade budgeting:
Often, trade programs need to be overhauled to drive sales growth. CPG companies are rebuilding trade budgets from the bottom up to realign spending according to optimization drivers, customer segments, and market needs. Such an approach invites a culture of accountability for the business to operate and meet its internal objectives.

End-to-end policy and process framework:
Successful organizations boast fully defined and standardized trade management policies and processes, which reduce the company's risk of making trade commitments that fail to drive incremental value. For example, many firms have reduced trade leakage by reviewing, challenging, and implementing new and revised policies and processes based on trade ROI best practices. Moving to this best practice requires a significant shift in culture and accountability, with these short-term transformations positioning the business favourably for the future.

The journey to advanced trade analytics:
The journey to driving business decisions with analytics begins with a transaction-based approach. Such an approach starts with recording and managing trade on an ad-hoc basis with spreadsheets. Next is to analyze and optimize trade, thinking of not just what is spent, but how it is spent. Higher on the scale lies real-time and predictive trade analytics and, ultimately, transparent joint business planning, which ensures that trade management becomes a collaborative, informed process between a CPG company and its customers. Advancing the organization's analytics capabilities can optimize allocation of trade dollars and potentially drive down operating costs.

With an increased understanding of trade impacts and success levers, CPG companies have seen an improvement to ROI and profitability as trade management best practices have been deployed.

Example of forward-thinking processes

Savvy companies that rise to the challenge of adopting leading practices to overhaul their trade management approach and analytic opportunities are achieving great results. Several CPG companies have recently undertaken this challenge and developed a robust set of policies, processes, and trade analytics tools to quantify leakage and suboptimal spend. This approach led to these companies optimizing their trade budgets by 5 to 10 percent.

The trade-maturity approach
Performing a maturity assessment of trade promotions management (TPM) against Deloitte's proprietary TPM maturity model generates a clear vision and identifies critical gaps between the current state and desired future state of the operating model. Using identified insights, we then gather data to precisely quantify the impact of inefficient trade spending relative to commitments with key customers. Harnessing these insights and leveraging industry best practices helps fuel new future policies and processes aimed at closing key gaps in trade mismanagement.

Once the TPM maturity assessment is complete, Deloitte can assist with developing and customizing ROI-driven trade policies and processes, creating trade analytics tools, implementation planning, and change management. At the same time, Deloitte can also assist in strengthening trade spend ROI, TPM system selection and implementation, and redefine customer/channel segmentation strategies.

Instilling a culture of accountability is a key enabler of driving improved trade ROI.

Questions every CPG organization should ask:

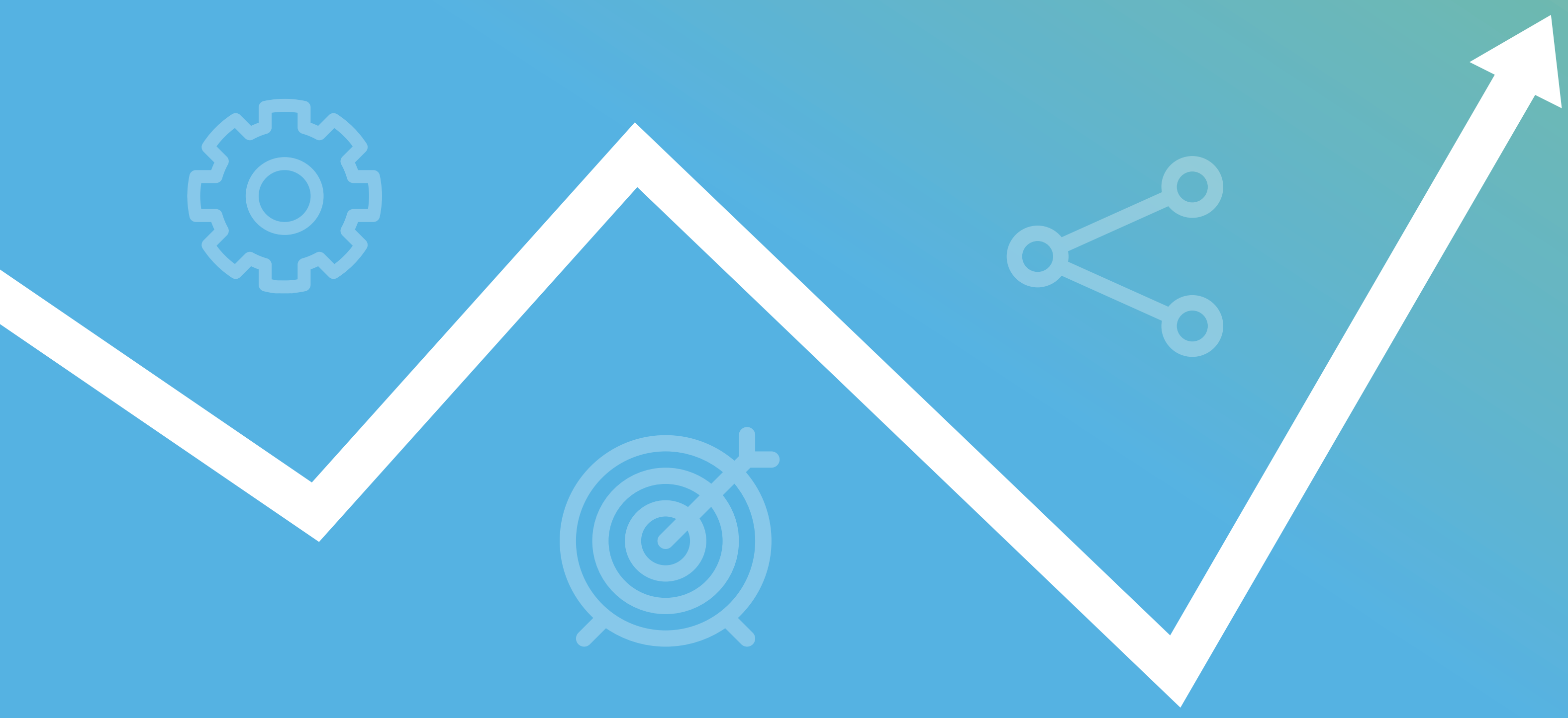
- Is our trade spend driving optimal sales to maximize margin, or is it solely focused on top-line growth?
- Are we aware of how much trade leakage we commonly face?
- Do we know which customers are driving the highest ROI? Is our trade spend consistently being used to drive margin accretive revenue?
- Do we have a framework in place that enables sophisticated and mature trade spend planning and execution?
- Do we have the ability to assess our spend at the SKU level by customer, channel, and geography?

The imperative for change

Proactively seeking to reduce spend and profit leakage as well as implementing strong policies and process planning can give CPG organizations the tools they need to drive higher profit margins while defending and potentially growing market share.

The next frontier for improving trade management may very well be developing artificial intelligence and blockchain to reposition customer segments and help in collectively developing trade spend as an industry. Deciding on this approach can also eliminate organizational redundancies and advance significant EBITDA growth.

Leading CPG organizations seek to increase simplicity, trust, and visibility in trade spend management in order to seamlessly enjoy better financial performance—not just in the short run, but over the long term.



Contact us:

Adam Brown
Partner
adbrown@deloitte.ca
647-504-5134

Brian Stewien
Partner
bstewien@deloitte.ca
416-543-2489

Andrew Bond
Senior Manager
anbond@deloitte.ca
647-224-5089

Contributing authors:

Carlos Cantafio Apitz
Senior Associate
ccantafio@deloitte.ca
437-779-4874

Khalil Hajjarah
Manager
khajjarah@deloitte.ca
416-819-8158

www.deloitte.ca

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