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Enhancing Trade Investment Management Effectiveness (TIME) for CPGs

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Chris leads Fractal's work in CPG and Retail with his domain thought leadership and client consulting expertise. He has 20 years of experience in the CPG industry, starting with IRI in the area of Retail. He spent 13 years with Kellogg Company, where he held various roles across CMI, CatMan, Brand, Sales, S&OP, Revenue & Trade Management. He was also a member of Sales and Marketing Leadership Teams. Chris moved to Kimberly Clark as Senior Director – Global Analytics, where he lead global best practice deployment in Sales and Marketing ROI. Chris holds a BA in European Marketing from the University of Hull in the UK. He also holds a diploma from the Chartered Institute of Marketing in the EU.

Chris has a real passion for using advanced analytics to tackle very real business challenges. He believes that companies invest huge amounts in Marketing and Sales, but most invest little in understanding the ROI of these investments. He believes those that do will be winners, and he wants to help drive that success.

You may think this article has a provocative title. Well, in this article, I'd like to highlight what I believe to be key success factors that are integral in the journey towards achieving Trade Investment Management Effectiveness (TIME) and I'd also like to describe what a 'good practice' looks like in each of those factors.

Trade Investment for most CPG companies is the biggest line item in the P&L after Cost of Goods Sold. In my experience, most CPG companies have 'nth-degree-detailed' focus, capabilities, analytics and knowledge when it comes to supply-chain efficiency, asset utilization and cost-to-serve dynamics. However, when it comes to **Trade Investment Management Effectiveness (TIME)**, most CPG companies have much less of an understanding of what's working, what's not, why and how to drive higher ROI and improved business results from that investment. But first, I'd like to stress the importance of the concept of Trade Investment as opposed to Trade Spend as it is often referred to.

Spend vs. Investment

As people who know me will (painfully) attest to, this is a real point of principle and paramount importance for me. When you look up **'spend'** in the dictionary, it states: ***'to pay out, disburse, or expend; dispose of (money, wealth, resources, etc.)'***. To me, spend does not describe the purpose of trade monies. When you look up **'investment'** in the dictionary, it states: ***'the investing of money or capital in order to gain profitable returns, as interest, income, or appreciation in value.'*** Now to me, investment sounds much more like how CPG CFO's would describe the purpose and the requirement from budgeted trade monies. This may seem like a nuance in wording, but it's very important in terms of mindset and culture for an organization as they seek to achieve TIME.

Now let me introduce – in my experience – the 6 key success factors to achieving TIME:

Focus! Visibility! Knowledge! Control! Execution! Do it again and again!

Focus!

The first of the success factors that I'll cover is **Focus**. In this instance, by Focus, I mean Focus on success criteria and balanced objective setting. There are inherent trade-offs between using Trade Investment in driving volume vs. driving ROI vs. driving mix and % margin. All too often, there will be stated goals for one of these metrics for a brand / portfolio in an organization, but no communicated guardrails relating to the other metrics. As an example, if I had $10 for every time I've been asked 'Did that promotion work?' in my career, I'd be taking private villa family holidays in Barbados every year! The answer is straight forward, as are the lessons. Answer 'Yes! If you're objective was to drive volume. The promotion was a BOGOF. So of course it did, but look at the state of your P&L…'

In order to set Focused balanced objectives and an effective deployment of Trade Investment, companies need to set balanced objectives that are clearly communicated e.g., 'Grow volume by 10%, $ Profit by 5% with no more than 100bps decrease in % margin.' This is clear across all key metrics and very easy for everyone in the organization to be measured against. Not easy to achieve, I agree, both in terms of objective setting and objective achieving. But not only does this Focus drive clarity, it also forces more rigor into the objective setting process, meaning the combination of metrics has to be modelled out and deemed to be achievable in unison rather than setting an unachievable combination of objectives for the organization and setting the organization (and the individuals within it) up for failure.

Visibility!

The second success factor I'll address is having the right **Visibility** into how Trade Investment is actually invested and the purpose of the investment (i.e., what are we aiming to achieve from the investment and how it is actually recorded internally?) These factors, therefore, provide Visibility to drive the analytic capability. After all, if you can't see it, you can't measure it. If you can't measure it, you can't understand it. If you can't understand it, how on earth do you make solid business decisions on the often $1B+ global Trade Investment budget?

Usually, Trade Investment is recorded by financial controls criteria: Off-invoice vs. billback / retrospective payments; lump sum vs. variable cost. I'd like to put forward that whilst there are legitimate ways of accounting / clear criteria and rules to record by, they are not representative of the impact that those investments were intended to create relative to strategy and desired consumer behavioral response.

I also propose that ideally classifying Trade Investment according to intended impact and desired consumer behavioral response is far more useful to feed analytics to understand what is working, and how and why to improve business performance. For example, see the figure below for suggested classifications and goals of the investments.

Customer Margin

- Mechanism to allow differential pricing between customers without giving to all through list price reductions across the board
- Access to data for category management purposes
- Secure guaranteed conditionality for objectives as part of a joint business plan

Consumer Price

- Short term share
- Drive volume through switching from competition
- Block competition activity
- Positive ROI to drive bottom line
- Enhance velocity to maintain listings on SKUs at risk
- Drive trial of innovation / renovation
- EDLP price support for retailer

In-Store Execution

- Secure secondary locations in-store to drive awareness, visibility and trial
- Branded in-store materials to support execution of commercial programs
- Participation in retailer leaflets and coupon programs to drive awareness and trial
- Use of MDF/CRDF funds for marketing purposes

Cost to Serve

- Supply chain efficiencies, e.g., quantity discounts such as full truck load orders and deliveries
- Financial efficiencies, e.g., cash flow benefits such as prompt payment discounts, cash payment discounts

None of these investments are inherently 'good' or 'bad'
Not all of these investments are about short term $ ROI in their own individual right
They can all have very valid commercial purposes dependent upon the context

Using the above classifications, aligned to the purpose and desired outcome of these investments, we can far more clearly analyze the key drivers to invest more in and those activities that we should discontinue or at least minimize.

I should add here that the notion that increased Trade Investment is bad and decreased Trade Investment is good, which exists in a majority of CPG's, in my opinion is far too black and white versus the realities of the world of CPG and Retailing.

As an example, if I have a really breakthrough set of innovation products to launch this year, should I really be aiming to keep Trade Investment flat or decrease it? If I try to do that, because I don't have the Visibility framework I detailed above, I will invest in the innovation at the expense of the core portfolio (from where the savings need to be made to fund it). As this continues, my innovation (the Children) are being fed and looked after, meanwhile the core portfolio (the Adults) who bring home the revenue to feed the Children, get weaker and longer term, may not be able to feed the adolescents.

Using the Trade Investment Visibility approach, I would argue that in the above situation, a year of increased Trade Investment is not only acceptable, but possibly desirable, providing that all the increase is being attributed to the breakthrough innovations in the classifications of In-Store Execution and Consumer Price – the objectives of which are to drive Visibility, awareness and trial of the innovation. This is very much in support of the overall longer term business objectives.

If we now have clear Visibility to strategically aligned investments / fluctuations / explanatory factors around investment decisions and ROI, next comes 'Did it work?'

Knowledge!

The third area I'll cover is **Knowledge**. By that I mean a full and regular diet of Pricing and Promotional Effectiveness Analytics that, wherever possible, cover the differing in-market executions impacts on all major metrics: volume, retail revenue, net sales and gross profit.

This includes:

- Impacts of everyday price and combinations of promotional executions on each of these metrics including all cannibalization and competitive switching effects
- Impacts of all of these on manufacturer profitability, retailer profitability and how the profit pool is evolving between manufacturer and retailer

Within each promotional execution, the precise investment Visibility created will break down the investment components which in turn drive the delivered metrics. Tying these back to rounded Focus objectives and guardrail parameters allows much more accurate planning, monitoring and data-driven decision making.

Given the size of the investment that most CPGs have in Trade Investment, it amazes me how few companies have an institutionalized approach to the Knowledge of how these investments work and are performing. A former boss of mine used to have a mantra that I'd like to share here. 'You cannot save yourself rich.' This clearly is linked to my earlier point about thinking of Trade as an 'Investment' rather than referring to it as 'Spend'. If a CPG company invest $1B globally in Trade, surely it's sensible to set aside 0.25%–0.5% as a ratio to get detailed Knowledge regarding the performance and drivers of the investment results to refine those investments in the future to improve business results?

If I was running a private business, I would be approaching this with a 'My Money Mindset' and this level of investment in Knowledge vs. the overall investment that Knowledge would influence seems a no brainer to enable my organization to make far more decisions on 'What I know?' vs. 'What I think?'

Controls!

Having established the Focus and Visibility and the Knowledge of best uses of investment to drive the business objectives, the next challenge is to embed all of this into standard business processes, such as Annual Operating Planning, Sales & Operations Planning, but also to feed into brand / retailer strategy plans and playbooks.

For example, For Brand A in Retailer X, we need to do more of B and stop doing C. This sounds very prescriptive. There will always be exceptions (and often these can turn out to be the most difficult decisions and most relationship-led, successful investments there are!). But there needs to be clearly defined playbook guidelines, aligned to the overall Focus-balanced objectives. And when exceptions to those arise, there are clear escalation and approval / 'no go' processes that can be invoked quickly (by either cyclical meeting cycles or by exception meetings of a select group to make a decision) based on Knowledge and contextual business situation. Without Focus, Visibility and Knowledge, these exceptions would never be flagged, they would just happen and unknown / unapproved consequences would ensue.

Execution!

Execution probably warrants an entire article in its own right; such are the complexities of every single executional negotiation of Trade Investment. But this is an article, not a book, so I'll keep it short.

With Focus, Visibility, Knowledge and Control, the time is now for the rubber to hit the road. These four areas combine to provide a playbook for the sales teams to execute with excellence and bring home the Focused business objectives. This means: ensuring the right information gets to the right people, at the right time, to enable them to sell. The Execution of the playbook plans is where the money is made and where the ROI increases become realized.

Investment in the right technology and systems is key to enable this two-way communication, as quickly as possible. What to execute and compliance reporting are paramount in capitalizing on all the good work that has been done internally regarding Focus, Visibility, Knowledge and Control. Without Execution, the rest is rendered almost academic.

Do It Again and Again!

There is a reason that CPG in Europe is called FMCG. F = Fast. The marketplace, consumer attitudes and retailer agendas can change quickly. So the need to continually update and improve on these six areas is inevitable. This is not a one-time exercise. This is a continuous improvement journey. Focused objectives and guardrails need revisiting. Trade Investment Visibility needs maintaining, improving and adapting to innovative in-market executions of investment. A regular diet of up-to-date Knowledge is required to keep guidelines, playbooks and executional excellence on track. Controls will always remain important, but also will the escalation process to manage and veto exceptions (You can't save yourself rich!). Execution is Execution. Without it, nothing is going to improve.

Closing Comments

I believe that most CPG's are moving ahead on some if not all of these areas. But I'd love to hear from anyone who believes they've really fully cracked the Trade Investment Management Effectiveness (TIME) challenge, along with the six areas I've detailed as the key success factors.

There is also a cultural change management component required to truly embed and embrace this ethos that I've touched on in parts and will summarize here. In that cultural change is a language element. No longer should we refer to 'Trade Spend', only 'Trade Investment'. Mindset shifts should follow. People should be encouraged to think no longer 'My budget. I must spend it or else I'll get a lower budget next year' rather instead be encouraged to think 'If it were my money, would I invest it that way?'.

Focus, Visibility, Knowledge, Control, Execution and Do it again and again.

In order to be successful on the journey to enhance TIME, believe it or not, Business Practices and Culture need to become a lot more FVKCED!

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Fractal Analytics has more than 1000 people across 12 global locations including the United States, UK and India and has been named a “Cool Vendor in Analytics” and a “Vendor to watch” by Gartner.

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