

Trade Spending Challenges in Smaller CG Companies

The Consumer Packaged Goods (CPG) industry is made up of many players that vary from very small to super-large. What makes this industry unique is the fact that small-to-midsize manufacturers can make a major impact despite having fewer resources. In this Q&A article, Cindy Goulden, VP of Product Management, discusses the unique challenges smaller companies face regarding trade promotions and how they can overcome obstacles to compete on equal footing.

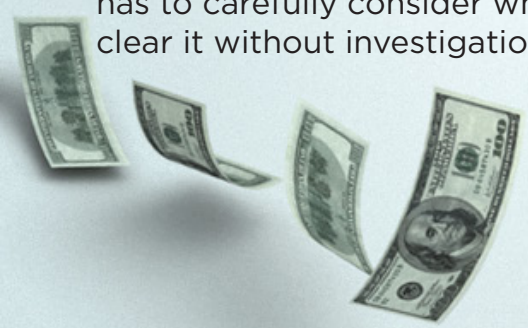
How important is Trade Promotion in today's environment?

As competition for retail space and consumer dollars continue to increase, so will the importance of trade promotion activities. With the growing acceptance of higher-quality private label products, SKU rationalization and pricing pressures due to food costs, manufacturers need to stay on top of trade dollars.

What are some of the major challenges for smaller CG companies?

Small-to-midsize CPG manufacturers generally have less influence so they need to have a hook to get a retailer's attention – a new line, natural and organic offerings or other fast-moving products that appeal to consumers. Consumers are doing more research before they walk into a store so smaller CPG companies need to show retailers how their product can attract traffic and wallet spend.

Second, smaller CPG companies don't have the resources to purchase downstream data to help them make better decisions. This can create a vicious cycle because small manufacturers don't have beneficial information to take to the retailer to demonstrate why they should perform another promotion. Smaller CPG manufacturers need to make the most out of the data they do have. Unfortunately, many do not because they don't have the right tools in place to do so. The settlement process is another big challenge. If a large retailer takes an unexpected deduction, a CPG manufacturer has to carefully consider what to do. Often, we hear that if a deduction is under a certain dollar threshold, they might just clear it without investigation because they have bigger fish to fry.



Small CPG companies have a fear of damaging relationships if they do push back. But on the retail end, the deduction process is prone to error. Retailers aren't looking to cheat manufacturers. They value a strong relationship. But a small manufacturer needs to be able to quickly review deduction requests and show what is valid and what is not.

What size budget should be allocated to trade promotion?

On average, most companies allocate 15-30% of their sales for trade promotion. As your product set and retailer networks grow, so will your allocation. For very large manufacturers, we have seen allocations go well above 30%.

Do CG companies who spend more (as a %) have the advantage?

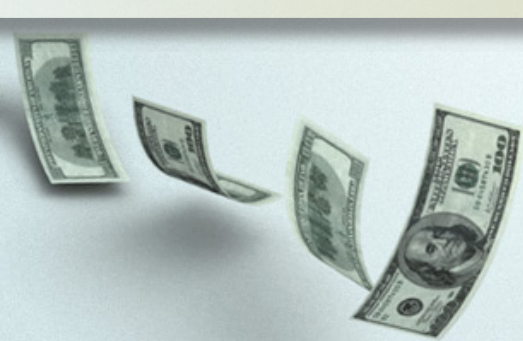
Amazingly they don't. While they spend more, most admit that they don't have insight into the effectiveness of their trade spend. There is a great deal of data - syndicated, point-of-sale, company sales - but much of it is unavailable in time to analyze an active promotion. It's very difficult for manufacturers to change direction on a promotion mid-stream because they don't receive accurate real-time feedback on how it is performing. Thus, companies often keep running the same plan over and over without any insight as to how it is impacting sales or if it is even profitable.

What's the top barrier to having visibility into trade promotions?

Research clearly shows that it's all about the tools being utilized to manage trade promotion. About half of CPG companies are still using homegrown systems such as Excel® or Access. Unfortunately, trade promotion has outgrown the capabilities of these traditional tools. Information is not timely and prone to error. It is difficult to analyze or even share reports with homegrown tools. Plus, customization is slow and painful and only a few 'super-users' can even work with the tool. A 2011 "CPG Year in Survey" showed that only 18% of those using a homegrown solution are satisfied with their tools.

Can CPG companies address this problem and gain more visibility?

Historically, alternatives to homegrown systems have been cost prohibited - too expensive to purchase and too many resources were required to install and maintain software-based packages. But technology has evolved. Even a small manufacturer will profit from implementing a Software-as-a-Service (SaaS) trade promotion management solution. SaaS-based systems are gaining traction for its quick implementation, low cost and high return on investment within the first year.



When should a small CG company expect to recoup its investment?

The cost is now so affordable that most companies will see an ROI within the first year. For example, a company with \$25MM in annual sales and a 15 percent trade spend budget can save more than \$120,000 in trade spend deductions and promotion effectiveness.

How does TradeInsight improve trade promotion effectiveness?

TradeInsight's low cost cloud based application can be deployed in a matter of weeks not months with no upfront fees and provides a multitude of benefits across the supply chain including the ability to:

- Evaluate spend at every level (fund, tactic, product, retailer, etc.)
- Identify unproductive promotions
- Track sales and spending to match plans
- Improve coordination between sales & production enabling CG company to know what to produce and when
- Automate deduction reconciliation, identify double-dipping and invalid deduction requests



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