

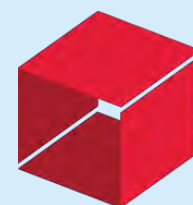
NATURALLY GOOD
**BUSINESS
SUMMIT**



**11:20am - Profitable
Trade Spending**

Bob Burke, *Principal*
Natural Products Consulting

Summit Sponsor:



UNLEASHED



Dreary, Dull and Dangerous Profitable Trade Spending

Bob Burke

May 31, 2019



Driving Business Growth for Brands,
Manufacturers & Distributors

Bob Burke

- Advisory work in assisting bringing natural, organic and specialty products to market across most classes of trade
- Write business plans for raising capital and growth strategies for management teams
- Co-Author/Publisher of the *Natural Products Field Manual, Eighth Edition*
- Co-produce and co-lead seminars on “Becoming a More Effective Sales Manager in the Natural and Specialty Channel” and “Financing your Consumer Products Company”
- Serve as outside director of: EcoFish, Orgain, Saffron Road, King Arthur Flour and Farmwise
- Advisory Board: Go Veggie, Soapbox Soaps, The Chaat Company
- Former director: Stonyfield Farm, Equal Exchange, Stirrings, FoodState,
- Former Co-chair, Specialty Food Association’s Natural and Organic Council
- Admissions Committee, Specialty Food Association
- Prior to consulting was VP Sales and Corporate Development for Stonyfield Farm for 11 years.

Contact: 978-975-9902; Bob@NaturalConsulting.com

8 Cobblestone Lane, Andover, MA 01810

www.NaturalConsulting.com



Natural Products Field Manual *Eighth Edition*



- Complete, comprehensive, 4 volume, guide on “how to go to market” for natural, organic and specialty products.
- Includes Flash Drive with directory of top natural retailers, mass-market natural buyers, distributors, brokers, industry resources, budget models, new item forms and store logos.
- Practical, proven, best practices shared and illustrated by industry veterans.
- Rich, insightful guest editorials by notable natural buyers, brokers and CEO’ s.
- \$100,000 in coupons.
- Half Day consulting by author.
- www.NaturalConsulting.com

Trade Spending:

What is it and why it is important?

- Monies you spend with retailers and distributors.
 - All allowances, free fills, slotting, ads, table-top shows, deductions, etc.
- Largest expense bucket on P&L after COGS.
- Average spend is 15% of sales, earlier stage companies can hit 20, 25, 30% of sales.
- Remember – Trade Spending should be thoughtful, strategic investments, not rote programs.
 - Trial
 - Loading
 - Volume building

Trade Spending

What you need to do about it:

- Plan for it.
- Simple system for communicating, tracking, evaluating.
- System for charging back unauthorized deductions.
- Start with a simple spreadsheet based model.
- Benchmark where you are and focus on steady improvements.
- Get everyone in your company tuned into this.
- Use it to help understand P&L by customer.

A Great Trade Spending Program is:

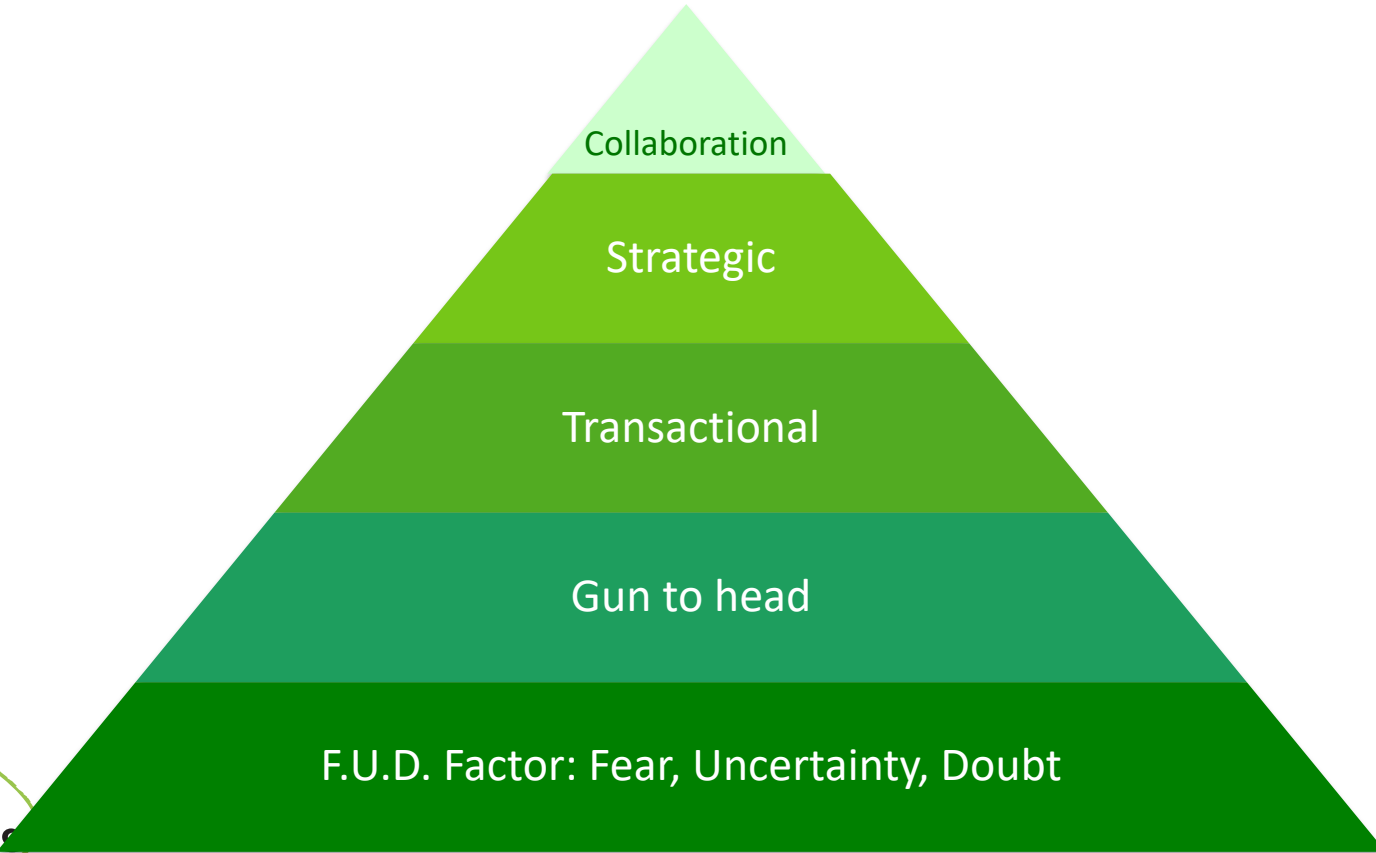
- Purposeful.
- Communicates events throughout organization.
- Anticipates impacts on demand planning, operations, ties with marketing, cash flow.
- Evaluate what works.
- Allows for P&L's by customer.

Maslow's Hierarchy of Trade Relationships

- Proposed by Abraham Maslow in his 1943 paper “A Theory of Business Development Motivation” in Psychological Review.



Maslow's Hierarchy of Trade Relationships



What's a Collaborative Relationship?

- How do we grow the pie together?
- How can both the supplier and customer help each other achieve their strategic goals?
- Does the supplier understand and have a channel strategy?
- Does the customer encourage the supplier to enter new categories and/or develop new products?

Components of Trade Spending

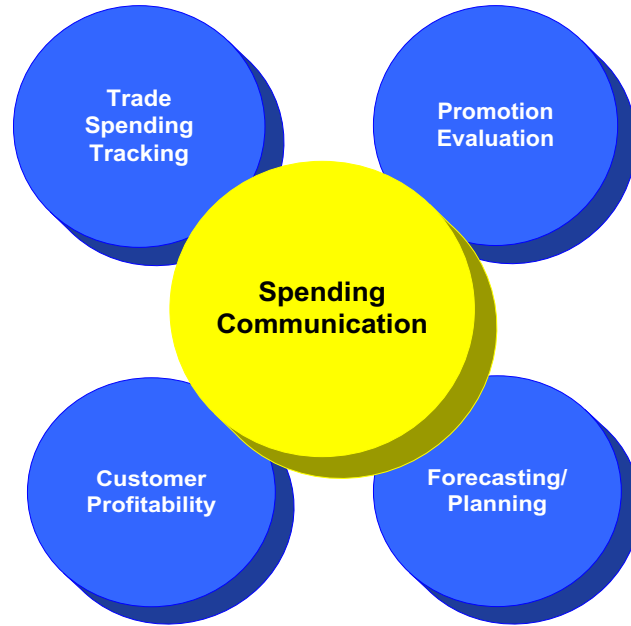
- Off Invoice Allowances.
- Billbacks / MCB' s / Scan Buydowns.
- Co-op Print Advertising/Flyers/Circulars.
- New Item Authorization Costs (Listing fees, free fills).
- Case Stack / Display Programs.
- Rebate / Volume Incentive Programs.
- Other Retailer and Distributor Specific Trade Programs.

Trade Spending Management Simply Defined

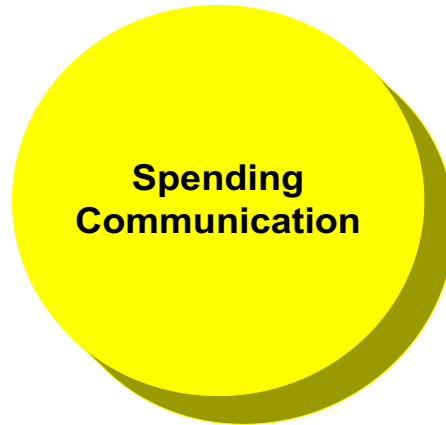
- Communication of Spending Activities.
- Tracking of Spending Activities.
- Evaluation of Spending Activities.
- Profitability Impact of Spending Activities.
- Management of unauthorized deductions/chargebacks to distributors and retailers.

Simple Trade Spending Process

Effective Trade Spending Management Requires A Singular Fully Integrated Process



Effective Trade Spending Management Requires A Singular Fully Integrated Process



- **Spending Activity Initiation**
- **Updates/Revisions**
- **Invoicing Accuracy**
- **Accrual Projections**
- **Actual Spend Confirmation**
- **Deduction Facilitation**
- **Information Dissemination**

Sales Expense Authorization Form

Example Sales Expense Authorization Form

Today's Date:

April 11, 2014

Sales Manager
Brokerage
Account Executive
Broker Representative

Brian
JJ Sloane
John Bird
Todd

Please send this form to:

Supervisor
Accounting
Sales Operations
Your file
Broker or NOS Sales Manager

Customer Information

Distributor
Retailer
Address
City, State, Zip
Contact

UNFIKeHE
Stop & Shop

Quincy, MA
Jeffrey Klineman

Product Information

Featured items

Mixers

Notes

Performance Dates

November 28 - December 28

Form continued...

Promotion Description

Holiday rack promotion with ad and demos

Fixed Expenses

Free Goods	\$	24,684
Slotting		
Distributor Ad		
Retailer Ad	\$	1,500
Rack Placement Fee	\$	4,000
Racks	\$	15,000
Demos	\$	7,500
Other	\$	2,500
Total Fixed expenses	\$	55,184

Notes

<u>Cases (1/store)</u>	<u>Price to sto</u>	<u>sku's</u>	<u>stores</u>
600	\$ 41.14	6	100

Variable Expenses

<u>Rate</u>	<u>Total Estimated Dollars</u>
Off Invoice %	15% \$ 5,184
Off Invoice Case rate	0
MCB	0.5 600
Scan	0
Rebate	0
Other	0
Total Variable Expenses	5784

Notes

<u>Estimated Cases</u>	<u>List Price</u>
1200	\$ 28.80

Total Promotional Expense

\$ 60,968

Est. Cases

1,200

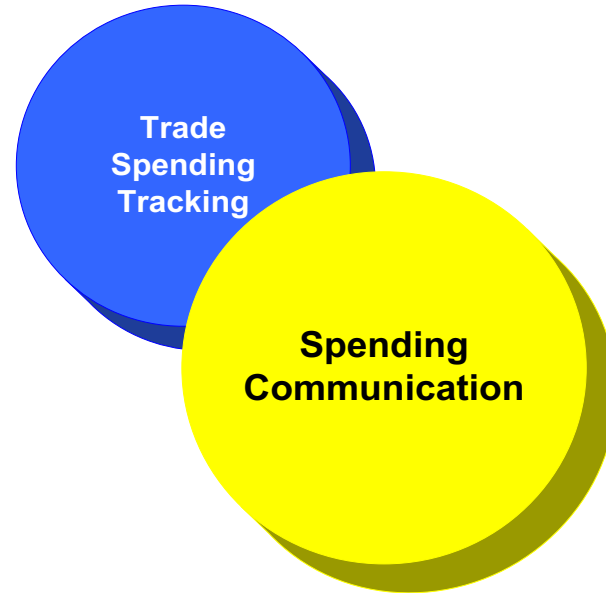
Cost/case \$ 50.81

Payment Method

Off Invoice yes
 Deduction yes on free goods and MCB
 Check
 If Check - Make Payable to:
 Mailing Address

Effective Trade Spending Management Requires A Singular Fully Integrated Process

- Transfer info from SEA Form to log
- Monthly Revenue/Expense Capture
- % Sales and Absolute Dollar Basis
- Fixed/Variable Detail By Account
- Budget/Last Year Comparison
- Indirect Account Linkage
- Booked vs. Reconciled Separation
- Early Trend Identification



Trade Spending Log Example

	Jan	Feb	Mar
UNFI East			
2014 Sales Budget			
2014 Sales Actual			
2014 Sales Variance			
Fixed Expenses			
Projected Free Goods			
Reconciled Free Goods			
Projected Slotting			
Reconciled Slotting			
Projected Distributor Ad			
Reconciled Distributor Ad			
Projected Retailer Ad			
Reconciled Retailer Ad			
Rack Placement Fee			
Rack Placement Fee			
Projected Racks			
Reconciled Racks			
Projected Demos			
Reconciled Demos			
Projected Other _____			
Reconciled Other _____			
Total Projected Fixed Expenses	\$	-	
Total Reconciled Fixed Expenses	\$	-	
Budgeted Fixed expenses			
Budget Variance			
Notes:			

Trade Spending Log continued...

Variable Expenses

Projected Off Invoice
Reconciled Off Invoice

Projected MCB
Reconciled MCB

Projected Scan down
Reconciled Scan down

Projected Rebate
Reconciled Rebate

Projected Other
Reconciled Other

Total Projected Var. Expenses
Total Reconciled Var. Expenses

Budgeted Variable Expenses
Variance

Total Trade Spending Budget
Total Trade Spending Actual
Trade Budget Variance

☒ \$ -

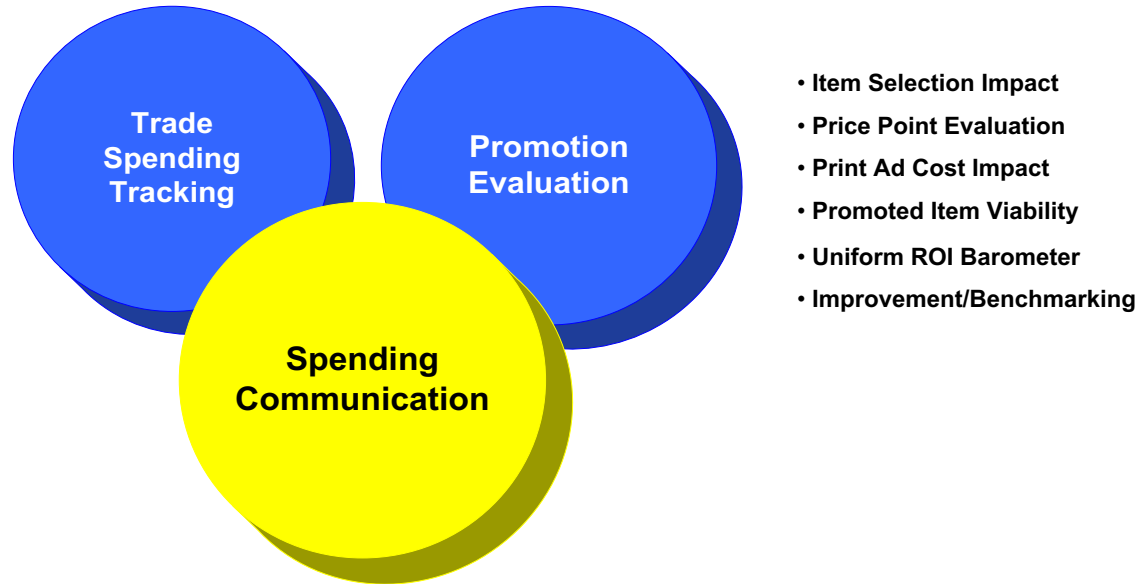
Budget % Gross sales
Trade % Gross Sales

☒ #DIV/0!
☒ #DIV/0!

% Budget Variance

Comments

Effective Trade Spending Management Requires A Singular Fully Integrated Process



Cost Per Incremental Dollar (CID) Defined

Total Promotion Gross Sales \$\$\$ \$ 700,000

Total Everyday Gross Base \$\$\$ - \$ 100,000

Total Incremental Gross Sales \$\$\$ \$ 600,000

Total Promotional Spending \$\$\$ \$ 200,000

Cost Per Incremental Dollar (CID) .33



*** .33 CID Equates to a 3:1 Payback on Dollars Spent**

Cost Per Incremental Dollar (CID)

Methodology

- Simple and easily understood ROI measure.
- Provides benchmarking by product category & item.
- Enables ongoing tracking of improvement trends.
- Ability to perform meaningful “what if” scenarios.
- Facilitates “actionable decision making” environment.
- Identifies revenue & profit opportunities.

Account Summary Report

Jewel

January - July 2018

PROMO	PROMO	FIRST	NORMAL	PROMO	INCREMEN	INCREMEN	INCREMENTAL	OI/BB	OI/BB	PRINT	PROMO	PROMO
ITEMS	RETAIL	SHIP	CASES	CASES	CASES	GROSS SALES	GROSS PROFIT	RATE	COST	COST	PROFIT	CID
12oz Pot. Chips	BOGO	1/1/04	6,000	45,000	39,000	\$592,000	\$296,000	\$6.80	\$306,000	\$20,000	(\$30,000)	\$0.55
12oz Pot. Chips	2/\$5.00	3/1/04	6,000	28,500	22,500	\$360,000	\$180,000	\$2.80	\$79,800	\$12,500	\$87,700	\$0.26
12oz Pot. Chips	\$1.99	5/10/04	6,000	36,000	30,000	\$499,200	\$249,600	\$4.00	\$144,000	\$12,500	\$93,100	\$0.31
12oz Pot. Chips	\$2.49	7/1/04	6,000	18,000	12,000	\$188,800	\$94,400	\$2.80	\$50,400	\$7,500	\$36,500	\$0.31



1,000 Count Single Roll Promotions

Ad Date	Promo Retail	Incremental Sales	Trade Spending	Promo Profit	Promo CID
2/16	3/\$1.00	\$509,594	\$58,268	\$ 120,090	.11
6/8	3/\$1.00	\$397,690	\$46,527	\$ 92,665	.12
9/7	3/\$1.00	\$574,956	\$65,126	\$ 136,109	.11
3/16	4/\$1.00	\$1,057,954	\$376,355	(\$6,701)	.36

4/\$1.00 promotion generated twice as much revenue but was over 6 times more costly and unprofitable

A .10¢ CID Improvement across an Entire Business can have a Dramatic Profit Impact

Total Annual Sales	\$50 Million
% Promoted Sales	50%
Total Promoted Sales	\$25 Million
Incremental Factor	60%
Incremental Promotional Sales	\$15 Million
.10¢ CID Improvement	.10¢
Total Profit Impact	\$1.5 Million

**A .05¢ CID improvement equates to a \$ 750,000 increase
in bottom line profitability.**

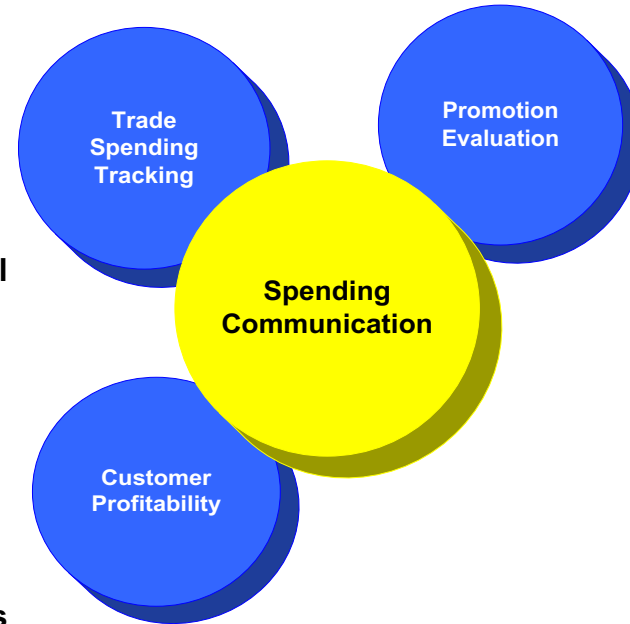
Effective Trade Spending Management Requires A Singular Fully Integrated Process

Sales Contribution Basis

- Customer/Geography/Channel
- Line Item Expense Detail

Related Areas of Impact

- Gross Margin /Product Mix
- Transportation/Distribution
- Early Trend Identification
- Profitable Growth Opportunities

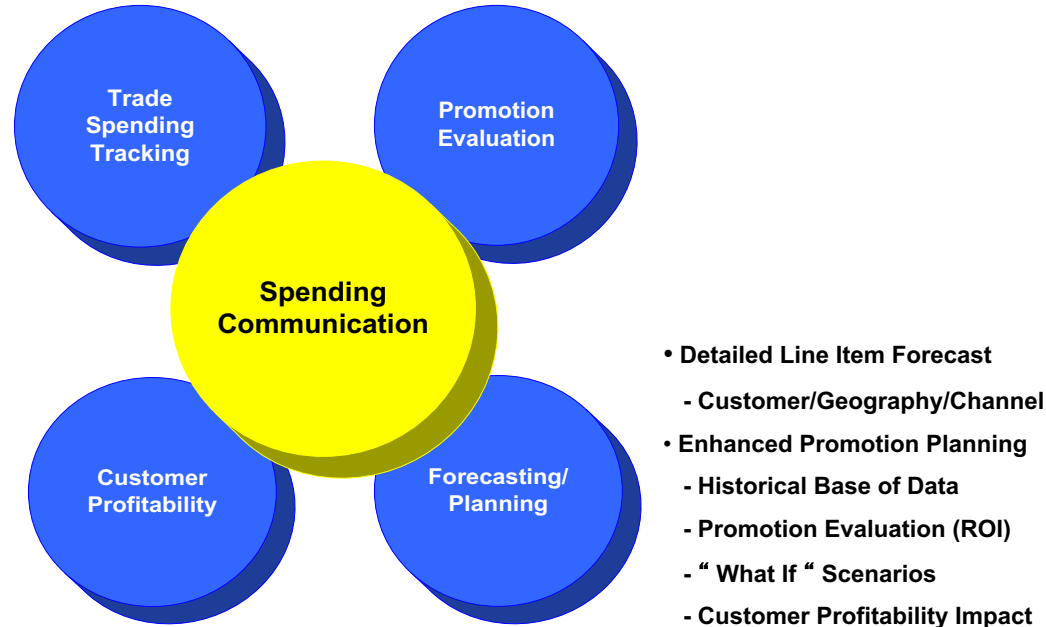


Sales Contribution Analysis



	2018 Actual	% Sales
Gross Sales	\$ 15,671,727	
Returns	\$ 282,091	1.8%
Cash Discount	\$ 313,435	2.0%
O/I Discount	\$ 1,175,380	7.5%
Purchase Billbacks	\$ 783,586	5.0%
Scan billbacks	\$ 1,567,173	10.0%
Rebates	\$ -	0.0%
Crossroads	\$ 235,076	1.5%
Print ads	\$ -	0.0%
Slotting/free fills	\$ 100,000	0.6%
Net Sales	\$ 11,214,987	71.6%
Cost of Goods	\$ 8,149,298	0.52
Gross Margin	\$ 3,065,689	27.3%
Brokerage	\$ 560,749.34	5%
Transportation	\$ 460,000	4%
Total Variable Costs	\$ 1,020,749	9%
Sales Contribution	\$ 2,044,940	18%

Effective Trade Spending Management Requires A Singular Fully Integrated Process



Summary

- Everyone needs to track, manage and evaluate trade spending.
- Think of these as strategic investments – not costs of doing business.
- Start with a simple spreadsheet based model.
- Benchmark where you are and focus on steady improvements.
- Get everyone in your company tuned into this.

What Type of Tools Exist to Support Trade Spending Management ?

- Manual Processes Supported by Spreadsheets.
- Internally Designed & Developed Software Programs.
- Externally Purchased Software Program Modules.
- Purchased Enterprise Software Applications.
- Off-Site Hosted Integrated Web Based Applications.

Addendum

Handling Deductions

Key

- Clarity about the sale terms is paramount and may be the single best piece of advice for minimizing deductions.

Causes for Unexpected Chargebacks:

- Miscommunication – make sure broker is clear on policies, also “zealous to make sale, weak on details”.
- Human Error.
- Inadequate Order Management – not rotating, ordering too much.
- Orders on Promotional Allowance.
- Delayed Chargebacks – makes it difficult to track.
- Post-Audit Claims.
- Transitional Charges – buying out the line you are replacing.
- Over Shipping for Promotions.
- Delivery/Shipping Discrepancies (you are in the system at FOB and buyer asks you to ship product).
- Payment Terms.
- Distributor Fees or Administrative Charges – warehouse set up fees, “C&S crossroads”.
- “Creative” Deductions – if excessive, ultimately do you stay or walk.
- Unsubstantiated Deductions – says it all.

Disputing and Reimbursement

1. Get documentation.
2. Have a tracking system in place.
3. Be vigilant.
4. Highly “perishable” – try to resolve quickly, older they are, more difficult to recover.
5. Ideally have one person dedicated to managing this (preferably in accounting).
6. Sales should get involved especially if good relationship with buyer, but be wary of time sink and developing unwarranted adversarial relationship with customer.

Deductions Summary

- Do your homework.
- Have a policy in place.
- Set the tone early...you are on top of this.
- Choose your fights.
- Act quickly with well documented response.
- Network with your peers.