Trade promotion spending often accounts for as much as 20 percent of revenue. In times of increasing competition and cost pressures, consumer packaged goods (CPG) companies are looking to optimize this massive customer investment. In our experience, companies that have successfully deployed advanced capabilities such as predictive analytics and post-event analysis have significantly improved trade investment decision making. As a result, these companies achieved bottom line improvements or redirected part of this investment to other vehicles without impacting sales performance.

To achieve sustainable results, it is necessary to approach trade promotion management (TPM) as a staged capability development effort. Advanced capabilities must be built on a set of robust and reliable foundational capabilities that provide the functions needed to fund, plan, pay for and manage a comprehensive account-level business plan.

All too often, companies attempt to deploy advanced capabilities without building the proper foundation and fail to realize anticipated benefits. Many find that additional unplanned investments are required to address issues with the foundational capabilities. Even worse, some find that the issues are so profound that addressing them requires writing off previous investments in TPM systems.

If your company is currently executing a trade promotion program or is thinking about one in the near future, now is the time to take an honest assessment of your TPM foundation.

**“TO ACHIEVE RESULTS, IT IS NECESSARY TO APPROACH TPM AS A STAGE CAPABILITY DEVELOPMENT EFFORT.” – TREY ALEXANDER, BOOZ ALLEN HAMILTON**

Here, we discuss each component of a TPM foundation, highlighting the critical functionality that must be in place to efficiently manage your trade investments (see Figure 1).

**TRADE PAYMENTS**

Trade payment capabilities allow account teams to make timely payments for trade activities using the three prominent payment mechanisms: checks, deductions and off-invoice allowances. The difficulty with payments often lies in perfecting the two-way communication with other tools and systems that enable the payment processes. In a robust foundation, the user must be able to align payments with the promotion or trade activity that generated the trade liability. Payment capabilities should be supported by a checkpoint that gives teams a real-time view of how much has been spent and allows them to drill down into the specific transactions that impact the balance.

**TRADE FUNDING AND FINANCIAL CONTROL**

Trade funding and financial control allows teams to manage trade budgets in a way that minimizes the risk of over or under spending. Working in conjunction with the payment capability, the funding capabilities should be able to accurately answer the question, “How much money do I have left to spend?”

At the heart of trade funding must be the ability to use both variable and fixed funding mechanisms to deploy customer budgets. Variable funding mechanisms provide an added challenge as the TPM tool must depict not only actual funding, but also expected funding based on the current plan. With a poor foundation, account teams may find it difficult to understand their overall budget position. Many are forced to spend valuable time reconciling spend activity in spreadsheets to ensure they are not overspending or to assist finance in balancing against the general ledger.

**SALES FORECAST MANAGEMENT**

Sales forecast management allows teams to manage a total volume plan, typically at the product group or pack-size level. The capability should also enable tracking against the key performance targets that teams are measured against. Critical to this function is a “latest estimate” projection that combines YTD actuals with the remaining plan to show where the account will be at the end of the year.

With a poor foundation, teams do not have an accurate understanding of the plan’s projected performance, and volume dependent funding assumptions are incorrect. These limitations make it impossible for teams to know when adjustments are required and increase the risk of missing performance goals.

**BUILDING ON THE FOUNDATION**

Once these four components are in place, a company will be operationally efficient in managing its trade investment. Outside spreadsheets will disappear as account teams manage accounts in the TPM tool; promotion plans will be accurate with payments aligned to trade events; teams will have a clear view of budget position and will also understand how they are progressing against targets. With these improvements, the company can begin planning for future enhancements that deliver optimization and other advanced capabilities.

**INTEGRITY OF THE DATA**

The final step toward achieving the promise of advanced trade capability is the integrity of the data. The ability to capture, analyze and use data properly is the cornerstone of predictive analytics. With advanced capability and the necessary data, account teams can optimize trade spending and improve their TPM program, reducing cost and increasing revenue as they work toward sustainable results.

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Promotion planning should include the ability to reflect price buy-downs, EDLP promotions and HI/Lo merchandising promotions. At a minimum, each promotion should be able to capture planned volume (base and incremental), planned spend and actual spend against the activity.

When promotion planning capabilities are cumbersome, account teams revert to planning outside of the system. The TPM tool is no longer the system of record for trade activities, making it impossible to optimize plans with advanced capabilities.

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