OLIVER WIGHT PAPER series

Blind Spot

How Demand Management and Integrated Business Planning Are Used to Optimize Trade Spend Investment



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We think of competition as being outside of our own company. External competitors strive to be lower in price, superior in product and packaging attributes, better in their marketing messages, and excellent in customer service and delivery. When companies execute well in all of these areas, it can be disruptive for their competitors. It makes it much harder to create strong, loyal relationships with customers and consumers.

The disruption caused by internal competition is often overlooked and can impact a business in ways that take the focus off retaining customers and consumers. Internal competition in consumer packaged goods companies is frequently created by companies' own sales and marketing organizations.

These are the signs that Oliver Wight sees when internal competition exists in companies:

- Sales wants more trade spend investment.
- Marketing believes some of the trade spend money would be better invested in advertising, media programs, and branding.
- Budgets are created, but the analysis of return on investment is weak or swept under the carpet when the ROI is less than desired.
- Trade spend and marketing programs are not communicated with enough lead time to understand the program goals, assess the worthiness of the investment, and ensure that product will be available to support the demand that results from the investments.

If the above signs exist in your company, you are not alone. Oliver Wight has seen this situation in numerous consumer packaged goods clients. The conflict described above frequently occurs when companies assume trade spend is a key driver of generating demand.



The Blind Spot

The Value of Trade Spend Investments



Even when client companies operate Sales and Operations Planning (S&OP) or Integrated Business Planning (IBP) processes, trade spend often is fought over "underground." In fact, consideration of trade spend is typically omitted from or minimized in the Demand Planning process, especially in companies with an immature S&OP or IBP process.

In these cases, trade spend rarely becomes a topic of discussion in the monthly Demand Review, as part of the S&OP or IBP process. When something is not discussed in a Demand Review, it rarely surfaces in the Integrated Reconciliation process or the Management Business Review that are part of the monthly IBP process.

When Oliver Wight conducts diagnostics or assessments in consumer packaged goods companies, following are the reasons typically given for excluding trade spend from Demand Planning, Demand Review, and the S&OP or IBP processes:

- *"I don't know who makes these decisions."* - Decision making about trade spend programs and level of investment is decentralized.

- *"It's too complex."* - Trade spend in large consumer packaged goods companies can consist of thousands of spend transactions per month. The large number of transactions can make it arduous to plan, track, and monitor programs, let alone determine the return on investment in a timely manner.

- *"Nobody knows what the results are."* - When the decision-making process is not well defined, it can be difficult to establish accountability for the results of trade spend programs and the sound management of trade spend money.

- *"It seems nobody is managing these budgets."* - Because trade spend can be so difficult to direct and monitor, it is easier to decentralize decision making and the operation of these programs.

The above-described "circular logic" causes companies to accept "this is the way we've always done business," rather than challenge the objectives and results of trade spend investments.

What Is Trade Spend

Trade spend is the use of financial resources by a company to support a downstream business partner in building or maintaining a route to market for the company's goods. Trade spend is typically a key part of the demand generation equation for consumer packaged goods companies.

The origin of trade spend comes from manufacturing entities that relied on third parties to build distribution and, ultimately, retail presence in order to move products to consumers' hands. Thus, trade spend is characterized by activities that are executed by or through these third-party distributors and retail outlets and paid for, in whole or in part, by the manufacturer.

Trade spend activities include in-store promotions, extraordinary display activities, coupons, product features in retailer's advertising, and point-of-sale shelf resets. In some markets and industries, it can also be money paid as a bonus or rebate to distributors as part of the trading terms agreement between the entities.

With trade spend conceptually focusing on mutually beneficial activities between a business and its distribution partners, trade spend is typically part of the sales organization's tool kit and resource pool. The marketing organization can and should be involved in trade spend decisions, however. Retailers frequently desire to leverage a manufacturer's brand equity to gain attention and attract consumers into the retailer's space. The building of brand equity is one of Marketing's primary responsibilities.

As companies gain more experience with Integrated Business Planning and Demand Planning processes, a shift occurs in attitudes toward the business and how the business is managed. We find that executive teams begin to question why trade spend (and other sales and marketing investments) are not included in Demand Planning, the Demand Review, and the rest of the IBP process.

What Is Integrated Business Planning

Integrated Business Planning (Advanced S&OP) is an integrated business management process through which the executive team continually achieves focus and alignment among all the functions of the organization. The IBP/S&OP process has evolved over the last 30 years from an industry best practice to an industry standard practice.

The process has also evolved from what was once known as production planning to a companywide management process. Many companies have chosen to refer to the process as an Integrated Business Planning process to differentiate it from earlier demand-supply review processes run mostly by middle managers and with a predominant focus on supply chain management.

Executives in companies with a mature IBP process see the value of transparency and collaboration. Decision making is based on what is best for the company, shareholders, customers, and employees, rather than what is best for a department or function. Executives also expect to receive information that challenges long-time policies and practices. Information is also desired in the form of what-if scenarios and contingency plans to enable making better, more informed decisions. The cultural differences in companies with mature IBP processes are dramatic compared to companies with immature IBP processes or no process at all.

Here's a case example of one client company that used its Demand Planning and IBP processes to challenge existing trade spend practices.



Case Example

This manufacturer of food products had utilized formal Demand Planning and Integrated Business Planning processes for two years. Demand plan accuracy at the product mix level had improved from the mid-50 percent to the lower 70 percent. Still, Demand plan accuracy was consistently the top root cause of customer service failures.

As the Demand Planning group struggled to improve demand plan accuracy, another struggle was playing out in the management ranks of the sales and marketing organizations. Marketing management pushed to increase the budget for television advertising. Sales management argued for increasing the trade spend that it controlled. Trade spend was at a record level in the company's history – at 12.5 percent of net sales.

The disciplines that resulted from a formal Demand Planning and IBP process were used to grapple with the internal competition for the company's financial resources. Here's how the resolution played out:

The Demand Planner understood that her role was much broader – and more important – than putting together forecast numbers every month. Understanding demand drivers was paramount to better predicting how sales and marketing activities would generate demand – in volume, mix, and timing.

The Demand Planner had also developed a continuous improvement mindset. She knew a 20 percent improvement in demand plan accuracy was good but needed to be better.

As the controversy continued to brew between the trade spend advocates and television advertising advocates, the Demand Planner proposed conducting a study of one of the myriad of trade spend programs managed by the sales organization. The analysis involved placement of product in three retail locations, which we will call A, B, and C site locations. The demand velocity in these three sites ranged from high to low.

The analysis showed that display locations at the A sites drove growth in demand, and this growth was stimulating overall volume growth in the sales region. The B and C sites were not experiencing similar growth rates. The question was why and whether or not trade spend levels played a role in driving growth at the three sites.

The client company took the following three steps to find answers to their questions:

Step 1: Sales more closely linked trade spend money to the execution of the display programs that placed product at the three retail sites. Linking the display programs and trade spend investments provided a way to assess the value of a dollar invested in the linked programs at the three retail sites compared to the return on investment in other types of trade spend activities.

What Is a Demand Review

The objective of a monthly Demand Review, as part of an Integrated Business Planning process, is to reach consensus on a volume demand plan and resulting financial projections (revenue and margin).

In reaching consensus on the demand plan, decisions may be made on the level of sales and marketing investment needed to generate demand volume – and the resulting financial impact.

Participants in the Demand Review include the Vice Presidents of Sales and Marketing, Sales Managers, Marketing Managers, and the Demand Manager.



Step 2: More accurate and timely data was acquired to better understand the sales velocity differences between Sites A, B, and C.

Step 3: Analysis was conducted to understand the results of the linked and non-linked trade spend programs. The findings from the analysis were presented at the Demand Review. At the same time, proposals were presented to decide what to do going forward.

The results from using trade spend to support the display programs were dramatic. Demand velocity roughly doubled in the A site locations. These results were qualitatively different from the results from other trade spend activities reported by the sales organization. The reporting of results from programs managed by the sales team was hampered by the lack of specific measures or documented program objectives.

Before conducting the comparative analysis of the results at the three sites, people intuitively believed the program at Site A was successful. The quantitative measures confirmed this belief, and the Site A program was declared a winner.

In reviewing the analysis of the results, the team also identified ways to improve the Demand Planning process. For example, the number of Site A, B and C store locations were known, but not typically communicated so that the information could be factored into the demand plan. The Demand Planner began collaborating with Sales to obtain location information. As a result, more accurate estimates were developed of the volume increases of demand at the A site locations.

The analysis of the results also caused a significant cultural change for making investment decisions. During the Demand Review, the behavior of the sales and marketing leaders changed. The “boxing gloves” were removed. The sales and marketing leaders expected recommendations on investment in trade spend based on demonstrated results in driving growth.

The sales and marketing leadership team now thought in terms of programs and results rather than taking a blanket approach toward trade spend. Discussions in the Demand Review focused on how to drive demand volume, rather than on defending functional spending positions. The leadership’s thinking can be summarized this way: Invest in what has proven effective; don’t invest just to invest or because that is how trade spend has been managed in the past.

The value of collaboration between the sales and marketing organizations became very evident. The leadership team realized that to collaborate well, programs could not operate in the “dark.” Plans and information needed to be shared. Sales and marketing leaders needed to agree on the financial investments that would drive the best results in generating demand and moving product in the channels.

In the end, the sales and marketing leaders agreed to invest more in the site location type of programs while spending less on trade spend overall. This investment strategy proved to be more productive in generating increased demand. The result: The company’s business growth rate accelerated significantly.



What Did the Company Learn From This Experience?

What the leadership team learned from this experience had an on-going impact in optimizing the company's investment in trade spend and other sales and marketing programs. Here's a summary:

- Understanding the sales and marketing investment plans – and challenging the program's potential value before making the investment – can prevent companies from spending money unwisely.

- Using a team approach, linking trade spend to specific marketing programs, is effective in driving increases in demand and business growth.

- Being transparent about programs and spending goals enables analysis of results to determine what was successful and what could be improved (or discontinued).

- The IBP process and its Demand Review provide a forum for reviewing sales and marketing plans, understanding and reaching consensus on the demand volume expected to be generated from the activities, and reviewing the results.

- Transparency and collaboration are more effective than fighting over money and not sharing program goals and results.

- The competition should be outside the company, rather than creating internal competitors who fight to protect their turf.

- Linkage of sales and marketing investments creates synergies that make it easier and more cost effective to achieve the strategic and financial goals of the business.

Summary

The value of collaboration between Sales and Marketing on trade spend investment and other programs is powerful. In the case example, the company created investment strategies that yielded greater results than in the past in increasing demand. The company's business growth rate accelerated significantly. At the same time, the company spent less on trade spend overall. The Demand Review, as part of an Integrated Business Planning process, has proven an effective forum for collaboration and making decisions. The focus shifts to what is best for the business -- in generating demand, moving product in channels, and driving business growth.



About the Author

Dan Spatz is an Oliver Wight principal with diverse experience in demand, supply, and service functions in both commercial and non-commercial organizations. He enjoys engaging people in sustainable transformations that deliver results. After serving with Catholic Relief Services and at the U.S. Embassy in Guinea, Dan began a business career with the Mars Corporation. During 19 years with Mars in Russia and the United States, he worked in Logistics, Procurement, Supply Planning, Marketing, and Finance. He also led two Integrated Business Planning programs and co-founded the Global S&OP+ Community in Mars. While in Russia, Dan coached three graduate management associates to achieve executive-level roles. Dan joined Oliver Wight Americas in 2014. He resides in Nashville, Tennessee.

About Oliver Wight

At Oliver Wight, we believe sustainable business improvement can only be delivered by your own people; so, unlike other consultancy firms, we transfer our knowledge to you. Pioneers of Sales and Operations Planning and originators of the fundamentals behind supply chain planning, Oliver Wight professionals are the acknowledged industry thought leaders for Integrated Business Planning (IBP).

Integrated Business Planning allows your senior executives to plan and manage the entire organization over a 24-month horizon, while Oliver Wight's extended Supply Chain Planning and Optimization ensures your supply chain is designed and structured to deliver best-in-class customer service with minimal costs. Using the Oliver Wight Maturity Model to pursue our globally recognized Class A standard for best practice will determine a tailored improvement journey for you to develop your organization's processes, and reach and sustain excellent business performance. With a track record of more than 40 years of helping some of the world's best-known organizations, Oliver Wight will help you define your company's vision for the future and deliver performance and financial results that last.

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