

Closing the Loop in Trade Promotion Management

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Trade promotion management has irrevocably changed due to two key factors: significant legislative action in the past 2 year period and increased scrutiny by CG companies on the value of ever-increasing trade spend. Within that timeframe we have been introduced to FASB, Sarbanes-Oxley, and stringent SEC actions regarding TPM compliance and proper reporting of fund execution. These legislative initiatives have created a sense of urgency for publicly traded corporations to take a close look at their current systems to monitor this expenditure particularly combined with the sharp upward trend of trade spending at amounts that attract “C-level” executive attention. This white paper will take a look at the implementation process in the integration of a closed-loop TPM solution with an existing corporate ERP system.

The *Process* for implementing a “closed-loop” TPM solution

To implement a “closed-loop” TPM solution, a company does not simply purchase some hardware, software CD’s and a manual. In order to ensure a successful implementation, several steps need to take place over and above the purchase and installation of software and interfacing with your ERP system. The following will take you through the implementation process and the necessary components for a “closed-loop” trade promotion solution.

There are several steps to implementing a successful TPM solution.

1. You must first know your company—a “*self assessment*” if you will. What I mean by that is you must understand your current trade promotion management capacity. Do your company’s capabilities allow for focusing on optimizing the spending and growing profitable volume and share? Or, you have little or no visibility to the big picture as it relates to what and how your trade funds are being spent? In addition, where does your IT staff feel their needs are relative to trade funds management? Are they in a position to take on an additional project like this?
2. The next step is to perform a ***Business Requirements Assessment***. As an organization, you must identify and prioritize your key business needs. Some of our clients have determined that they wanted to have the ability to measure the effectiveness and efficiency of their promotional activity. In addition, they wanted to be able to evaluate their accounts utilizing P&L reporting. Another major objective is to provide visibility to your organization on these metrics. By the sheer size and growth of trade spending, visibility and accountability continue to play a key role in the decision process of implementing a TPM solution. Other factors such as government regulations and financial controls will also play a role in your assessment. What gaps exist in your current process and system(s)?

3. Once the needs assessment is completed, a ***Cross-Functional Team*** must be assembled for the project. The project lead is typically from the business side—such as Trade Marketing, Finance or Consumer Marketing—and will lead a diverse group of associates representing the key functional areas within the organization. These include: Sales, Finance, IT, forecasting, Customer Service and Trade Marketing. They should be leaders and champions throughout the project. Along with ensuring functional expertise and representation on the team, key personalities must also exist to be successful. In addition to the member criteria and specifications listed above, upper management must also play a role. Having executive sponsorship/support is absolutely critical in a successful TPM transformation—both in process change and software implementation but also in the paradigm shift that the entire organization will experience.
4. When you have identified the team, the next step is ***TPM Vendor*** selection in order to determine the vendor that will implement the solution. A comprehensive RFP is developed based upon your needs assessment. You will then go through the process of interviewing and selecting a vendor based upon a matrix of criteria identified by the team, including cultural fit and expertise in trade promotions from a business perspective, not simply a software or technical standpoint. One of the technical requirements is that the vendor has “integration-ready” tools to facilitate a straightforward integration with your ERP system, covering all modules of the “closed-loop” solution. Other key factors in this process include ensuring the financial security of the vendor, several reference checks and live, on-site visits of a vendor’s current client users.
5. Implementing a TPM tool is more than just installing software. It involves process evaluation and adjustments as well. Therefore, it is a good industry practice to utilize an outside consultant to guide you through a ***Business Processes Assessment***. You want to take the opportunity to measure your processes against industry best practices. The recommendations are adopted by your organization and thus configured into the software. They can bring a wide breadth of experience from other clients and industry best practices. Documentation during this step is paramount to a successful implementation. You do not want to simply automate flawed business processes.
6. Then it is time to ***implement***. *The team*, including the vendor, will formally meet to kick-off the implementation phase of the project. At this point you will discuss your business needs along with the technical aspects of the project. Communication is a key factor in your success. Regular conference calls and milestones meetings throughout the project are a must with increased meeting frequency at key points. All team members are expected to participate. An agenda will be distributed to team members prior to the meeting (conference call) and detailed notes with action items will result from the meeting.

7. The final component is ***Training and Education***. This is critical to any process and software implementation. The new solution and the paradigm shift that occurred necessitate more than just a few hours of demonstrating mouse clicks and delivery of a manual. The training should be **customized** and meaningful with hands-on work in your “live” environment. In addition, you should take advantage of a “work-shop” environment to further the aptitude of the students.

What is a *Closed-Loop TPM solution*?

A closed-Loop TPM solution enables an organization to manage all aspects relative to its trade promotion spending. These include budgeting, planning, payments, deductions and analysis (pre and post event). They all must be implemented and seamlessly integrated with your internal systems, though the implementation can be staged. This allows for data to flow back and forth between the TPM and ERP systems. These include shipments, Cost of Goods, actual trade spending and syndicated data. In addition, these data flows must remain automated. Many TPM solutions today do not offer a complete closed-loop environment for the complete life cycle of trade promotion event. Below is a look at the modules and industry best practices for each.

1. The *Budget* module is the trade promotion checkbook

Planned and actual trade spending can be tracked against a budget that is assigned by product and geography. Available dollars are earned based upon shipments against a budgeted spend rate by the specified product. Fixed accrual budgeting can also be managed in this environment. Subsequently, all spending from planned, active and completed events reduce the checkbook balance. With this clear, accurate and timely view of where your spending is tracking, you can take corrective actions immediately and decisively.

2. The *Planning* module is the foundation of a closed-loop TPM system

Trade promotion management revolves around *The Plan*. It compares to the budget. Payments are made and deductions are cleared against the plan. Plans are also analyzed to measure effectiveness and efficiency of the event. Therefore, it must be integrated with the other components of “closed-loop” TPM and your internal systems—shipments, payments, COGS and syndicated data.

Managers and brokers must have “what-if” functionality to determine maximum event potential for both the manufacturer and retailer. In addition, accessing historical data (shipment, spending and syndicated) inside a TPM solution is critical in determining volume, promotional

lifts and retail expectations during your event planning process.

3. The *Payment and Deduction* modules apply the trade payments

All event-based payments must be linked to an *approved* trade plan within a “closed-loop” TPM environment. This closes the loop in TPM and reconciles spending against the planned activity. In addition to actual payments linked to a plan, they are also compared to *known liability*—the expected liability based upon the number of actual cases shipped against the respective plan—to identify over-spending situations.

This process also allows for a complete audit trail of payments/deductions and retail performance thus reducing unauthorized post-audit deductions. The manufacturer should have the ability to produce deduction letters to the account and/or broker directly from the TPM suite.

4. The *Analysis & Reporting* modules provides the answers

Questions many TPM managers and executives ask today are: Was the event effective? Did it make money? Did the retailer perform? Am I meeting my volume, spending and profit targets? Would I repeat the activity?

In today’s CG world, having the ability to evaluate trade promotion and incorporate the learning into planning for the future is critical to an organization’s success. Whether it is analyzing the performance of a single event, measuring trade spending for a sales region or generating a P&L for a customer, all of the modules within a TPM solution must be in a closed-loop environment. The outputs must be meaningful, accurate and timely.

The *Keys to Success* to implementing a “Closed-Loop” TPM solution

- Upper management championship (needed to counteract inevitable pushback)
- Strong cross-functional team—commit the resources
- A reliable vendor with solid references and experience
- DO NOT automate business flaws; DO clean up internal data
- Communication throughout organization and with vendor
- Training and education (initial and on-going to share best practice)