
Summary

Now that cash is king, Accounts Payable (AP) is receiving a great deal of attention. While the downturn has hit retailers particularly hard, it has also encouraged a reevaluation of procurement processes in general and trade spend in particular. Retailers are beginning to realize that relying on recovery audit firms to correct overpayments from promotions is costly in terms of cash flow and lost discounts. With margins cut to the bone, recovery audits can no longer substitute for accurate, front-end capture and analysis of trade spend.

This paper discusses the challenges retailers' face implementing timely trade spend capture processes, why such solutions are more important now than ever before, and the business process management (BPM) strategies and technologies available to address spend.

An industry rule of thumb suggests trade spend should contribute 1/10 of 1% to annual revenues. A \$7B grocery chain, whose stores generally purchased individually and did not maintain deal sheets, accrued just \$1M in trade promotion revenue - a \$6M shortfall.

Challenges

Trade spend should be viewed as a measurable operational goal that is monitored and evaluated as the participants and market change. However, inadequate standards and procedures, a departmental approach to an interdepartmental process, lack of deal documentation, and limited automation make effective trade spend management a challenge.

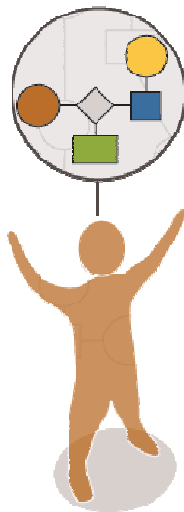
Trade spend is predicated on the relationships between suppliers, corporate procurement and stores. Many retailers depend on each store, or all stores in a region, to manage deals with little or no visibility into promotion outcomes and little or no access to the deal sheets, contracts, purchase orders, invoices and other correspondence relevant to goods purchased for resale. Other factors, such as price updates, supply interruptions, new vendor reps, out of stocks and unauthorized verbal deals make the effort to monitor and evaluate trade spend a daunting task.

Why focus on Trade Spend?

Effective trade spend management informs pricing and promotion decisions which can in turn improve profit, and reduce cost and risk. It improves cash flow by securing off-invoice discounts on a more current basis versus quarterly or annual volume-based performance programs, and it encourages suppliers to give more trade fund support to retailers who drive volume. That said, most retailers do not have the policies, procedures or systems in place to achieve such benefits. Lately, regulation, razor thin margins, and the downturn have encouraged creative, and sometimes even cooperative, solutions.

Our market analysis suggests retailers are anxious for a solution to address common trade spend issues:

- Anecdotal evidence suggests that a substantial percentage of agreed trade spend is not realized
- Trade spend disagreements can affect future orders, promotions and customer service
- Margins suffer from cash discounts lost on contested deductions that are eventually resolved
- Time spent in deduction resolution could be reallocated to analyzing trade spend effectiveness
- A lack of standard spend procedures leaves retailers open to inconsistent deals
- Ad hoc procedures create significant disruption when a new process participant is introduced
- When payment is withheld, supply interruptions negatively affect the brand and customers
- Cash flow and relationships are damaged by legal action to recover trade promotion dollars.



The retailer and supplier have a shared interest in controlling and understanding trade spend. Both can improve their businesses with a better understanding of product, product grouping and customer.

For now, the fact remains that trade spend is managed so consistently badly that getting it broadly right will give forward thinking companies significant edge.

Why Effective Management of Trade Spend is Essential for
Retailers and Consumer Goods Companies,
Tom Hartley, KPMG.

Spend Strategies

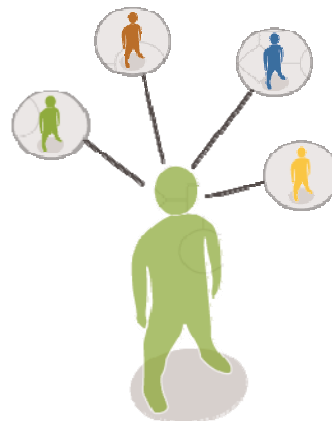
In response to a hyper-competitive retail environment, retailers are focusing on three areas:

- 1. Insure financial transparency.** Use content management to capture deal-related documents; create an index scheme and repository to support the association of deal documents to relevant content such as receivers, purchase orders, invoices, prices and customer sales.
- 2. Automate the trade spend process.** Automate trade spend procedures through integrated workflows that preface and complement invoice processing. Identify trade spend approvers and terms to facilitate subsequent invoice comparison and justify current period deductions.
- 3. Enable interdepartmental collaboration** Effective trade spend requires the cooperation and communication of all procure to pay participants from corporate purchasing, to in store buyers, to AP and IT. Corporate and store purchasing agents are as responsible for capturing deal sheets and following procedures as AP is for paying approved invoices and realizing cash discounts.

Workflow helps administer the scope and access of each procure to pay participant; it provides a comprehensive foundation for managing trade spend; it automates hand-offs and approval routing; it supports concurrent and sequential processing to reduce resolution duration; and it makes manual tasks transparent, freeing participants to focus on profit-generating activities.

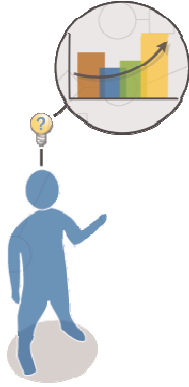
*"Truly understanding the impact of promotions via transactional, analytical and predictive strategies requires process automation. Automation also facilitates organizational structure internally and makes it easier to collaborate with external trading partners in analyzing promotions and predicting future demand. **The more we can automate and collaborate cross-functionally within the organization, the better we can collaborate with our trading partners, and the better the results will be.**"*

Tom Strubel, Oracle Strategic Solutions, TPMA Workshop, Spring 2009.



Solution Requirements and Approach

Ad hoc and verbal deals, as well as undocumented processes and procedures, must give way to complete and common trade spend protocols and reconciliation processes. The development of solution strategies predicated on established corporate trade spend goals are the key to success:



- What is our corporate branding strategy and how does our product promotion strategy reflect it?
- What variables drive profitability i.e. geography, process, sales relationship?
- What do we need to know in terms of data and documents to measure and track deal profitability?
- What processes must we put in place to capture the information we need?
- How can we get real time visibility into the performance of product promotions?

Once the first two questions are answered, responses to the others provide the context within which a BPM solution can be configured and deployed to manage spend, improve gross margin and reduce costs and expenses.

Inclusive document capture and current period audit capabilities require cross-functional standards and processes. Applying content management to trade spend means that deal sheets and associated content are collected via fax, scan, web or email and added to the trade spend repository. It means that deals are predicated on branding strategies and profitability goals, and indexed for subsequent retrieval. It means invoice receipt triggers automated retrieval and presentation of relevant documents to cross-functional participants for deduction confirmation and prioritized payment processing.

Workflow business rules enforce procure to pay standards, present pertinent documents to support payment, facilitate the participation of appropriate contributors, and insure that cash discounts are realized by prioritizing payables to achieve in period trade spend resolution.

BPM delivers common, automated, processes and procedures that reduce organizational risk, improve the contribution of trade spend to revenue, allow users to expeditiously address price updates and provide visibility into deal sheets, PO fulfillment status and all relevant content.

If your company can benefit from PBT's Trade Spend Solution, we recommend you take the next step.

Next Step

PBT's VantagePoint assessment provides an introduction to the power and potential of our configurable Trade Spend solution.

VantagePoint is a structured approach to business case development involving your people and our consultants. Together we review and assess the participants, processes and outcomes of your trade spend activities. With your business goals as a baseline, we apply content and process management strategies to your existing trade spend processes, using a graphical workflow to visually communicate how and where BPM can improve your outcomes.

If you want to learn how to approach trade spend process redesign, define the attributes required to configure an automated solution, and understand how our BPM solution can improve and streamline your trade spend outcomes contact us to schedule a VantagePoint review.

About PBT

PBT can help you meet your productivity goals, improve your competitive position, and provide better customer service by delivering BPM solutions that replace time-consuming activities with transparent tasks and use business rules to support sequential and concurrent interdepartmental processing. Our experienced business professionals deliver skilled project management, award winning process redesign, creative workflow solutions and ergonomically satisfying user applications.

Our customer commitment:

- Your anticipated return on investment is always achieved and frequently exceeded.
- Your business goals are reflected in our solution templates.
- Your self-sufficiency is our deployment goal.

Contact us at:

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