BLACKSMITH APPLICATIONS

WHITEPAPER

How to Create a Trade Fund Strategy

Insights from Blacksmith Applications CEO, Paul Wietecha

Contents

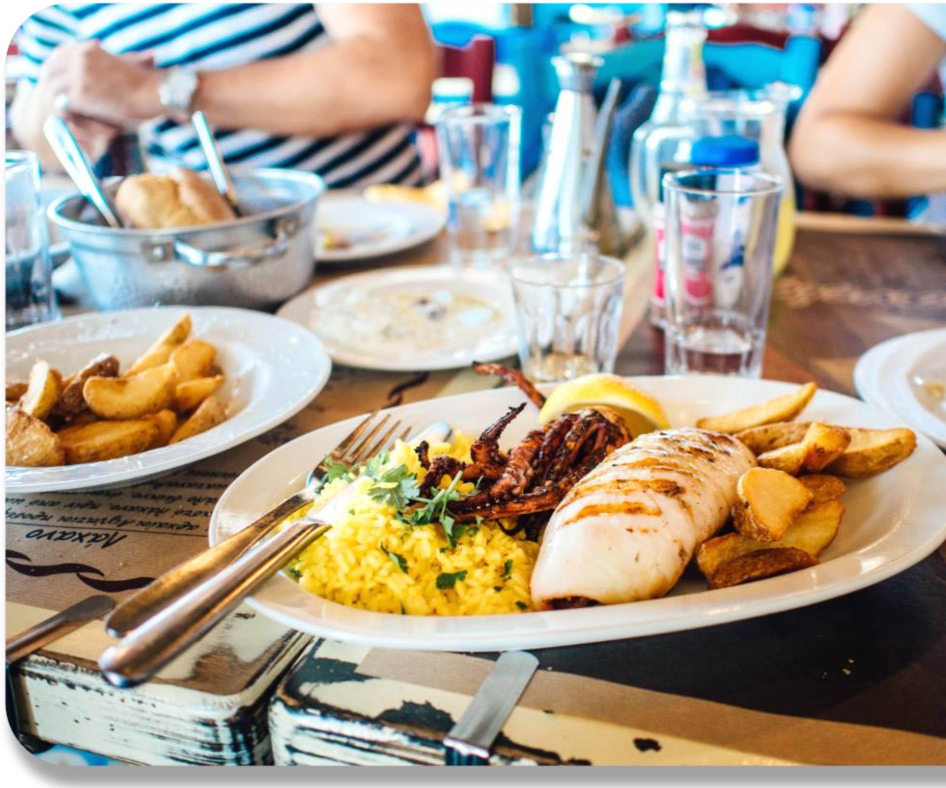
Introduction

The foodservice environment presents a unique set of demands that few have faced in their careers:

- Increasing pressure from operators to provide **pricing based on 'lowest imaginable costs'** and structured to ensure each location receives the full benefit of their purchasing leverage (e.g., ship-to based freight allocations for delivered pricing).
- Accelerated demands from the distributor community for **incremental sheltered income** at both the corporate and local levels, often without logical supporting rationale or apparent benefit to offset the incremental investment.
- Daily struggles to retain existing volumes in the face of **a broad decline in consumption** across most segments and categories.
- An ongoing internal war to 'keep the ship afloat' in the face of volatile costs, high levels of organizational stress and a generally gloomy outlook for the future.

The Pandemic Impact to Foodservice:

- Starting in March 2020, the US was asked to **shelter-in-place** to decrease the spread of the novel coronavirus.
- Because of the substantial restrictions to everyday life, the foodservice industry is expected to see serious declines in 2020. On a nominal or current dollar basis, the industry is **expected to lose $183 billion** in 2020 compared to 2019, using Technomic's Middle Case Scenario. At the predicted $636 billion level, this puts the industry at the same relative size as it was in 2012. Looking at 2019 constant dollars, the loss puts the industry at a revenue level that it has not seen since 1996.



If you don't have a trade fund strategy, you should.
Now is the time for action.

Over the past 20 years, I have been fortunate to spend time with a wide range of senior executives from many of the leading suppliers to the industry. One observation, and this is no big surprise, is that their schedules are jam-packed with meetings, every day and every week, all year long. Yet, the amount of executive energy devoted to the strategy and positioning for pricing, trade spending and operator allowances is pretty low. What makes this so puzzling is that just about everyone agrees that the **total amount of money spent on these activities is easily the 2nd or 3rd largest item** in their corporate P&L.

By comparison, engagement of the executive team in the definition and execution of trade and pricing strategy promises a return on an investment that outweighs the majority of competing activities by a factor of **10X or more.**

What is your organization doing today to address the opportunity? More than ever before, a thoughtful and **strategically-focused** positioning of the goals for the funding you provide to support the business can be invaluable.

Paul Wietecha
Blacksmith Applications
CEO & President

Read on to consider your trade strategy status and options for planning going forward.

Have you "taken care of" a trade strategy?

5 Questions to Ask Yourself:

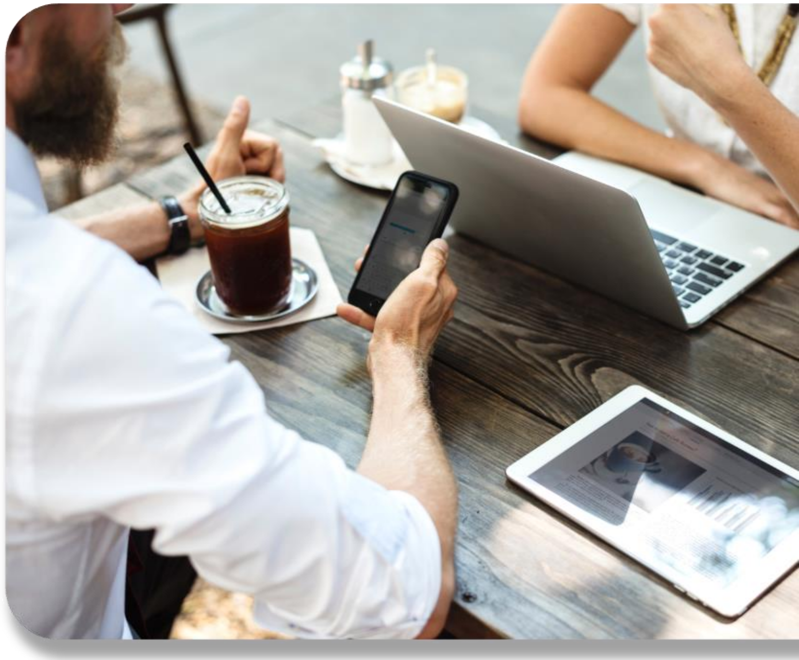
- If the members of your organization were asked to **articulate why you offer sheltered income programs** to your distributors, how much variation would you find in their collective responses? If you don't get consistent answers across the organization, the strategy may not be well defined or articulated.

- What percentage of the operators you offer deviated pricing to actually receive a lower delivered price to their units that reflects the full value of your offer? If you offer deviated pricing through the distributor, but don't communicate the discount to the operator, **are you getting 'credit' for the discount you're providing?**

- Thinking of your expectations for the benefits the company will receive for these funds, how rigorously **are you measuring the results** against those expectations?

- If a neutral party were to interview your customers who received these funds, what would their responses be when asked why they are receiving them, and, **what they have done to earn them?**

- Of the total dollars you spend, **what amount do you imagine actually has no effect on your volume trend?** If you had those funds available to spend some other way, how would you spend them?



As customer pressures bear down on your organization, the processes supporting these funds and the decision-makers responsible for them need direction relative to the goals and general intent of the funding. A strong positioning that articulates the classic 'who, what, and why' provides clear guidance to the organization as they navigate their daily tasks of making it happen.

Build Your Positioning Statement

Similar to a well-done brand positioning, **a powerful trade positioning will identify target customers, their needs, a value story for how you are going to meet them and the expected benefits of success.**

A position statement for non-profit government bid pricing might look something like:

For government and non-profit institutions (who), we will offer deviated bid prices (what) to meet their needs to control food costs and manage their budgets (why). If we are awarded their business through the bid process, we expect that they will commit to purchasing a specific volume of our product through the stated period. As a result, their volume represents an incremental opportunity to our operating plan.

We will audit N% of the claims for reimbursement and vigorously deny claims under the following conditions: (a) the item claimed was not specifically offered within our bid quote; (b) the rate of reimbursement exceeds our expected rate by more than X%; and, (c) our audit of the proof of delivery indicates that the distributor is not passing along the full value of our discount.

That is a relatively simple exercise that fits nicely with the model.

What would you write if you were to tackle corporate shelter and local marketing?

Some questions to consider:

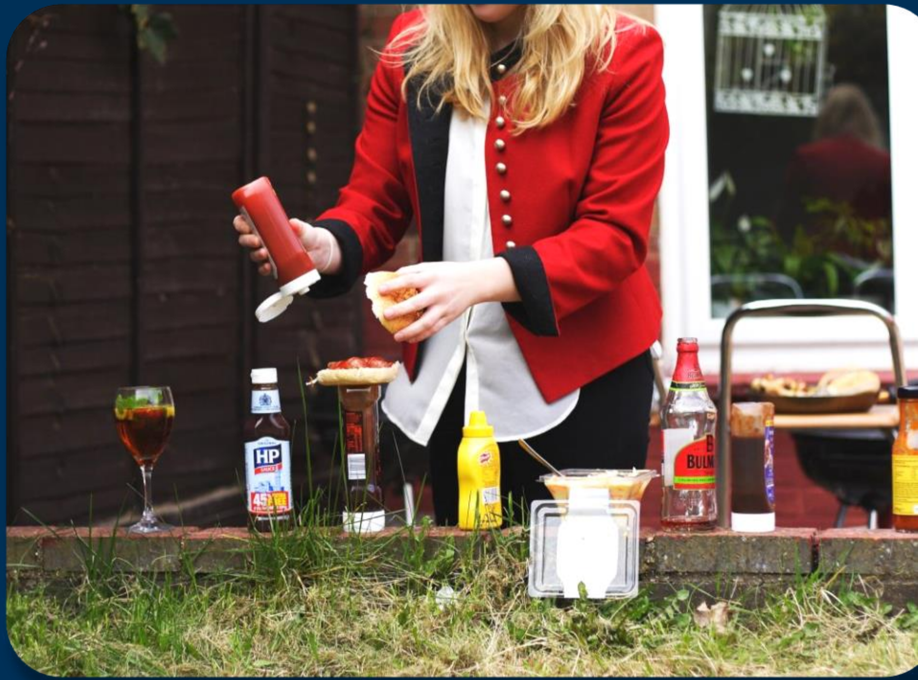
Who?

What?

Why?

Who?

- Have you targeted strategic customers to receive more aggressive shelter? If you have, how have you communicated the parameters to the organization to execute against?
- Is the ‘strategic’ label based purely on volume, or, have you also factored in the level of efficiency in serving them? In other words, are your trade funds structured to reward efficient behavior such as truckload orders?
- Within the organization, who is responsible for deciding the level of funding these customers receive? Do you have a measurement process to qualify whether or not they are administering the funds in a manner that is consistent with your goals?
- If the responsibility is distributed, are your decision-makers all operating under the same principles as they make decisions about requests for funding? Or, are the funds committed based on different criteria across markets?



What?

- Have you expressed a preference for the mechanics by which the funds are 'earned'? In other words, does the organization understand whether your prefer rebates over fixed funds? Is everyone operating with the same rules as it relates to offering percentage-based rebates against gross or net sales dollars?
- Are your offers a common rate spread across all products, or are the rates focused against those categories that are targeted for driving your business?
- Do you have a point of view on the value of trade show funds? Can you control how much money is committed to these funds with a given distributor, within a region or across an entire division?
- Have you placed conditions on the earnings relative to operator volumes that carry an additional discount? In other words, as your bid and national account business grows and the relative share of a given distributors purchases becomes more 'chain' and less 'street,' do your shelter incentives account for those duplicitous expenses?
- As it relates to reimbursement, have you stated a preference for the method of settlement and is that preference enforced by policy and process? Or, do your customers dictate if they are going to deduct and you accept their preference?

Why?

- Thinking with a classic consumer goods marketing approach, what is the 'buyer need state' you are satisfying? Why are you spending these dollars with your customers?

- What is the distributor rationale for requesting the funds and what is their stated use of them to directly build your business?

- Are your shelter funds actually playing the role of 'spending back' an artificially inflated into-stock price? If they are, what is your estimate for the number of incremental operator deviated price offers you now support to 'right-size' your artificially-inflated price to the operator community? As a follow up to that, what is the administrative cost to your organization to receive, audit and process the claims for operator pricing that would not exist if you had not artificially inflated the into-stock price in the first place?

- If you believe in marketing to the operator, how are these funds generating value for you with the operators your distributors service?

Expected Results

If you could guarantee that the shelter dollars you spend completely maximized their potential in the next quarter, how much of a volume increase would you put into the plan? Conversely, if you cannot make that guarantee, how much would you increase the plan if your job depended on the accuracy of the call?

WHICH APPROACH ALIGNS WITH YOUR EXPECTATION OF BUSSINESS PERFORMANCE?

Offensive Expectation

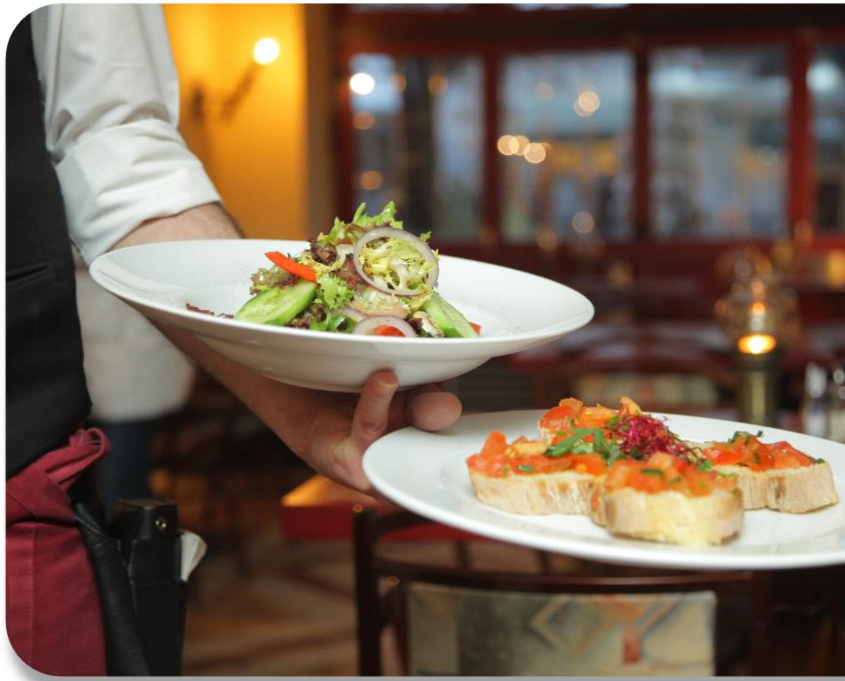
- Do you have an 'offensive' expectation that the volume trend of your business will change because of your offers?
- In an offensive environment, the manufacturer believes sheltered income does build the business.
- This would manifest itself in a variety of positive outcomes because of the funding, such as increased SKU distribution, deeper category penetration and elimination of competitive inventory.
- Realistically, should your organization expect these outcomes, and, should you withhold reimbursement of sheltered income if they do not come true?

Defensive Expectation

- Do you have a 'defensive' expectation that the volume trend of the business will only change (negatively) if you do not offer these funds?
- In a defensive approach, the manufacturer subscribes to a belief that shelter plays the role of providing a competitive level of funding in order to avoid a negative, or punitive, action from the distributor (e.g., they will stop buying if we do not "play ball").
- In the defensive trade strategy, the manufacturer will often express their funding strategy in terms of minimizing the level of funding while maintaining a manageable level of friction (e.g., dissatisfaction) with their customers.

Is a defensive expectation problematic?

- In a defensive positioning, the expectations manifest themselves in terms of **avoiding the conversion** of your business, **dodging the loss of distribution** for slow-moving items or **escaping an ugly confrontation.** In the classic defensive position, you will most often hear that 'our expectations are that we will not get kicked out of the warehouse if we give them the money.'



- Subscribing to a defensive positioning is not necessarily a sign of weakness or surrender. It may just be **recognition of the purchasing leverage** in the channel for your given product line or portfolio of brands. Within many product categories, the competitors offer very similar products, at relative price parity and with minimal premiums for brand value. In those instances, the power in the channel shifts to the distributor to command sheltered income at their stated rates and on their terms, '*or else*.'

- In those businesses, the threats of competitive replacement and inventory depletion are convincing enough to hold most manufacturers in line.

The value of a trade positioning exercise is the focus and clarity it can provide for your internal processes and the subset of your organization that manages the funds.

Consider the complexity or simplification of your positioning:

The complexity of an offensive expectation

If you are offensive in your expectations, then your trade dollars should be positioned as performance-based and value- generating mechanics. These are often cumbersome and complex to manage, monitor and audit.

As you consider this approach, it's wise to **build out a resource model** for supporting it to ensure you can accomplish your goals without spending your benefits back on administration.

The simplicity of a defensive expectation

If you are more defensive in your approach, and the goals of your trade dollars are focused on avoidance rather than opportunity, then, **these funds are likely to be earned mostly on purchases alone** (e.g., the distributor earns when they buy from you without constraints around how they should spend the funds to support your business).

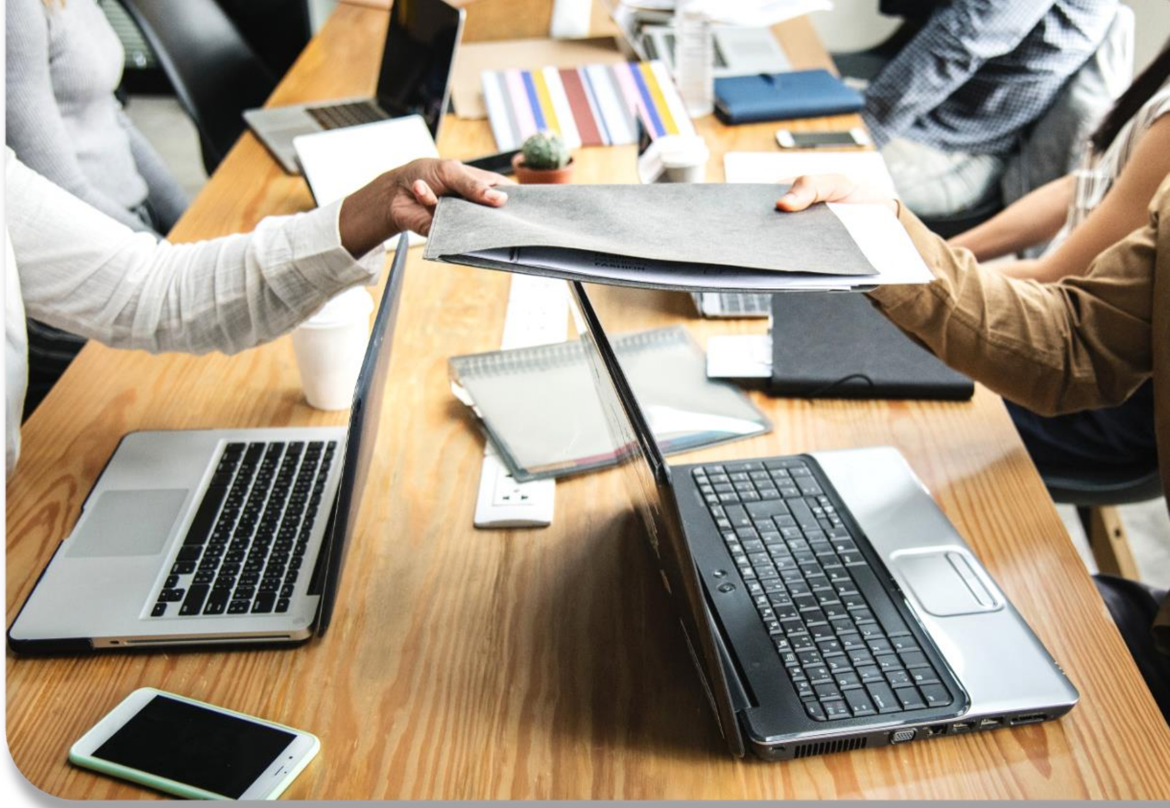
In this approach, **simplification of the processing structure** is recommended in order to minimize the administrative investment. The design should simplify each step of the process. In a purely defensive model, these funds are truly viewed as the cost of admission.

The Potential Impact of Organizational Maturity

While documentation and broad socialization of the positioning is recommended, some organizations should move forward cautiously if the personnel who represent customer touch-points are immature for the task.

As an example, if you were to state that the goal of your sheltered income programs is **purely to avoid loss** of distribution, you probably would not benefit if the folks interacting with the distributors share these thoughts with them directly. That would only serve to weaken your negotiating position and leverage.

Your positioning should contain an **externally-focused set of messages** that you want to share with your customers in order set their expectations of what you are willing to do.



What Should You Do Now?

Draft a positioning statement

Identify a small working group to meet over the next 2-4 weeks to draft and ratify a positioning document to clarify the goals and parameters for your major categories of spending. This list would typically include items such as Corporate Shelter or Rebates, Buying Group Programs, National Account Pricing, Bid Pricing and Local/Regional Operator Pricing.

Align processes to goals

Evaluate your current investments in processing these programs to ensure they align with your goals. Adjust these processes accordingly – making them more robust for offensive approaches and simplifying them for defensive approaches. If you are devoting as many resources to defensive tactics as you are offensive ones, you should consider revising those processes to minimize your effective net investment.

Establish a communication plan

Determine an internal and external communications plan. Your organization and your customers will have more productive and meaningful negotiations if everyone clearly understands the expectations and rules of engagement for doing business with your company.

Plan for annual review

Build time into your annual planning cycle to invest executive resources in revisiting, updating and managing the positioning. Given the size of the budget, can you afford not to undertake this step?

If you have questions about how software solutions can enable automation of your strategy, please **contact us**.

Strategy in Action

There was a time when Lactalis American Group struggled to get a grasp on their trade spend. You wouldn't know that today, considering their **impressive financial improvements**.

Lactalis can accurately trace every promotional dollar. "We have the ability to truly evaluate opportunities to determine if they make fiscal sense. We also have the ability to identify instances where Lactalis is owed monies by our customers. In the past, we lost quite a bit by forfeiting the funds. Our company didn't have the proper tools and reporting to substantiate collection activities. Now, with Blacksmith TPM, we do," says Kevin Brenon, Senior Trade Marketing Manager at Lactalis American Group.

Big wins 1-year after implementing Blacksmith TPM:

- **Decreased deduction balance** by $2.5 million
- **Lowered pending** count from 665 to 108
- **Reduced pending dollars** from $560k to $63k
- **Cut claim processing time** from days or weeks to takes about 2 days

We look forward to continuing the conversation.

Reach out to your sales representative or

hello@blacksmithapplications.com to get started.