Challenging the Status Quo: The Path to Growth through Trade Revenue Management
Manufacturers are constantly battling to do more with less resources, employing creative processes and innovative technologies to optimise operations and maximise product availability. Constant shifts in customer requirements puts pressure on manufacturers who are trying to anticipate demand and ensure they have the product availability to meet it. Without trade revenue management in place, manufacturers will struggle to make it in the manufacturing industry; without full visibility of where revenue is going it will end up down the drain.

An optimised trade revenue management solution can transform an organisation, by adding as much as 10-15% to the bottom line. This is a major uplift in operating profit for most manufacturers, making it a situation hard to ignore.

What is Trade Revenue Management?

Trade Revenue Management is not just a process. It is more than a series of actionable tasks under the heading of best practice. It’s a framework that interconnects all the many (and there are hundreds) pricing and trade related activities within an organisation. Ideally in a single system with the ultimate goal being to capture the benefits of trade investment, understand the true cost to the business at the transactional level, and optimise this activity for next time. In short, trade revenue management is a journey to profitable growth.

In order to remain competitive, manufacturers need to implement a solution to provide greater insights, higher accuracy and better business decision making capabilities. To maximise revenue, visibility is crucial to ensure that quality trade activities are being undertaken and that ineffective promotions or agreements are not continued. With the ability to capture the benefits of trade investment, Return on Investment (ROI) is more achievable.
Trade activities are a critical driver in the manufacturing sales model—specifically trade promotions and incentives. With upwards of 20-30% of sales revenue reinvested in trade activities, it makes trade spend one of the largest expense lines on the P&L. Over the past 10 years there have been several challenges that have changed how manufacturers approach trade revenue management. As these challenges have been addressed, it has led to a shift in operating efficiency, opening up a whole new era for manufacturers in terms of business opportunity.

It is no longer adequate to purely offer discounts, businesses must know their customers and how much they are willing to pay for a product. There is no point offering an incentive if it is not the right time for your customer to buy, equally not offering an incentive when your customer is ready to purchase can be detrimental to a promotional campaign’s success. The goal is to have the insight and visibility of this activity in order to identify a customer’s behaviour. Unfortunately in the manufacturing industry this is the element of revenue management largely lacking.

Legacy enterprise resource planning (ERP) solutions, which have been fine-tuned to keep pace with the changing needs of the business, can obstruct organisations by restricting decisions around interfaces, availability and quality of data needed to improve trade revenue management. Legacy ERP’s generally have high operating costs with limited functionality and access to information. This can be a major challenge for manufacturers whose growth is being held back due to the systems and business processes they already have in place.

The need to stimulate real customer growth is a challenge for manufacturers looking to identify new customers as well as retain current ones. Manufacturers are spending nearly 25% of revenue on trade promotions with little in the way of evaluating return on investment (ROI) or identifying effective and ineffective promotions. Without the ability to see ROI, there is the potential for ineffective promotions to continue running while eating up the profits generated by the effective ones. With trade promotions a large proportion of trade revenue management, manufacturers need to have a solution in place in order to manage this activity or risk impacting future revenue.

More complexity is added to this already difficult environment facing manufacturers with the ever shrinking margin on sales, making it even more important to have a revenue management solution to optimise trade spend activity and ensure visibility into customer and product level profitability.

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2 Market Guide for Trade Promotion Management and Optimization, Gartner Hagemeyer, D.
To ensure survival, manufacturers need to be able to adapt their business processes to be more efficient when demand is high and react to changing customer needs quickly. Without this capability, errors can be made if changes to orders and trade agreements are not updated across the system simultaneously. Organisations utilising spreadsheets and email to handle trade agreements and orders, risk encountering numerous errors due to incorrect data input or simply the lag in time it takes for the change to an order to occur.

SKU proliferation creates further complexity for manufacturers who don’t have a trade revenue management solution in place. Without a way to monitor sales of both high- and low-volume items, manufacturers can struggle to forecast accurately or identify items that are no longer performing. This also means that the Executive team are not able to quantify the impact of their product portfolio on operations. Without a solution in place to manage SKU proliferation, manufacturers are not able to have a complete view of the entire supply chain with information on customers, retailers, and wholesalers.

In manufacturing today, organisations are expected to offer, price, and deliver material goods in an efficient, standardised but also customised way. With the vast number of solutions available, manufacturers cannot afford to ignore the challenges they are facing and risk being left behind by the competition.

With a sound strategy in place it means that the benefits of revenue management begin to flow throughout an organisation. For manufacturers operating on tight margins this can mean the difference between success and failure. Each pillar works closely with the others to reflect the interwoven systems and processes within a manufacturing organisation.

The five pillars of a sound revenue management strategy are:

1. **Understand the true ROI of trade activity.**

   With a sound strategy in place it becomes easier to understand the true profitability of the trade activity within a manufacturing organisation, all the way down to the customer and product level. Match what customers are asking for with what was accrued as owed. Using payment runs to calculate and pay in a positive manner versus waiting to reconcile claims manually ensures that claims and deductions are managed accurately and efficiently.

   Understanding ROI also allows for analysis of successful or under-performing trade promotions and activities. Determining which suppliers and distributors generate the most profit allows a manufacturer to change their purchasing mix or sales channels on the fly and redirect resources into the most profitable avenues.

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3 Customer-Centric Revenue Management in Manufacturing – a Decision Support System’ 22nd European Conference on Information Systems, Tel Aviv 2014 - Hilbert, Andreas & Mohaupt, Michael. Pg. 1
BEST PRACTICE

Build a results focused trade revenue management program to meet compliance and auditory standards.

“A desire on the part of manufacturers is for a single global solution, but are tempered by the reality of regional expertise, cost differential, partner support, entrenched/preferred local solutions and required functionality. The result is that two to three solutions are usually selected or left in place to accommodate these and other key considerations.” [4] This approach to a global solution however, can lead to inaccurate data that is difficult to access and analyse.

For anyone operating in a channel with multiple levels between the producer and the final end customer or consumer, having the ability to easily analyse data and see a true picture of trade activity is essential.

INSIGHT

A single source of real-time trade data for actionable insight.

Building a trade revenue management program that can automate data entry to guard against errors will also create real-time analysis capabilities for manufacturers. Capturing flexible and accurate pricing, all costs and revenue streams, as well as all “after the invoice” programs per product, customer, and vendor at the time any purchase or sales activity occurs enables margins to be managed based on this detail level per line on each order. This delivers the ability to the Executive team to adjust expected volumes and make insightful channel purchase/sales decisions and the see the effect on costs, revenues and margins in real-time.

WORKFLOW

Unite teams, systems and across functions for streamlined trade revenue management.

United teams, systems, and business processes allows for streamlined trade revenue management that will provide countless benefits to manufacturers in the long term. It will increase efficiency at every step. Automation and consolidation of data sources will reduce the risk of processing delays as well as inaccurate data and the high costs involved with processing errors and maintenance of disparate systems. Consolidated systems improve data retrieval for auditing compliance and visibility of claims and deductions and reduce the risk of overpayments and duplicates at the end of the financial period.

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Analyst: Dale Hagemeyer
Effectively manage trade partner and vendor relationships to streamline both sides of trade revenue management.

Administer all pricing, rebates, and promotional agreements by using accrual and payment runs to make sure manufacturers are able to properly expense and settle all commitments and entitlements with vendors and customers efficiently and accurately. Streamlined vendor management means that manufacturers don’t have wait for a vendor to notify them of money owed, as it is in the vendor’s best interest to wait and see if you make a claim first. Manufacturers should claim from vendors as soon as funds are owed by using payment runs on the buy-side.

Efficiently manage cash application based deductions (short payments) by trade partners through separating collection from payables issues. For example, if they are paying for an invoice partially by deducting for a promotion then close the invoice so time and effort isn’t wasted trying to contact the trade partner for further payment.

Trade partner and vendor management is a forgotten aspect of trade revenue management. By streamlining these activities, manufacturers can pay and get paid accurately for any and all programs such as vendor rebates, customer billbacks, internal or broker commissions, distributor administration fees, and more.
A trade revenue management system encompasses creative methods and practices to improve operations and ultimately the bottom line.[5] Optimising the trade management workflow will allow manufacturers to operate at the most efficient level and ensure revenue is spent effectively.

The rewards of an optimised workflow:

- **Consolidation of multiple data sources**

Integrated software avoids silo practices that will help to empower manufacturers to understand the economic implications of decisions.[6] By standardising on optimisation software, companies will improve margins, increase yields, meet customer demand and gain a competitive advantage. Through consolidating multiple data sources, manufacturers will also decrease the instances of data entry mistakes via human error or changes to agreements simply not flowing through automatically to all relevant areas. In order to optimise profits, it’s critical to make sure all relevant information is easily accessible to those who need it.

- **Streamlined complex pricing**

In an industry where pricing and costs are constantly fluctuating, manufacturers are trying to hold on to minute price increases, while distributors and retailers are putting pressure on them for discounts. The leverage and payoff of improved pricing is high. Compare, for example, the profit implications of a 1% increase in volume and a 1% increase in price. For a company with average economics, improving unit volume by 1% yields a 3.3% increase in operating profit, assuming no decrease in price. But, as Exhibit 1 shows over the page, a 1% improvement in price, assuming no loss of volume, increases operating profit by 11.1%. Improvements in price typically have three to four times the effect on profitability as proportionate increases in volume.[7]

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Manufacturers need to be able to easily manage these complex and transactional level pricing arrangements negotiated with the channel, and ensure any changes are executed in real-time, regardless of the source of the price request. The increasing omni-channel nature of CPG sales channels requires not only flexible pricing but also an engine that is source agnostic and scalable to very high volumes.

- **Multiple Rebate Arrangements**

Long term trade promotions such as trade rebates, fees, commissions, and royalties can be difficult for manufacturers to manage. Most of the time there is no special processing in place for trade rebates or royalties in order to calculate and generate accruals and settlements. With an optimised trade revenue management workflow, accruals of rebates and other retrospective programs are automatically calculated and settled to ensure promotion financial requirements are met. This is a significant advantage as it reduces overpayments, ensures all entitlements are claimed, and allows for complete visibility of transactional profitability.

- **Simple Auditing and Researching of Claims and Deductions**

Manufacturers with an optimised trade revenue management workflow won’t be overpaying on trade promotions. It’s common practice to dedicate resources to this area to reduce and recover revenue leakage. However, solutions specialising in automating the process of identifying possible exceptions will ensure compliance with the trade agreement in place. Minimising or eliminating overpayment due to excluded volume is a significant profit optimisation opportunity for all manufacturers.

- **Accurate Forecasting and Real-Time Decision Support**

The quality of data available to manufacturers will determine the quality of their business decisions. With an optimised trade revenue management workflow, accurate data is available for forecasting decisions around production and allowing “what-if” planning scenarios. Real-time decision support is available in order to understand how current promotions are performing, providing the ability to identify successful or non-performing promotions and take appropriate action.
Manufacturers are at various levels of maturity with respect to their sales and trade revenue management systems or, perhaps, lack of the same. These systems may be manual, automated or a mixture of both. Most manufacturers who are evaluating their level of sales and trade revenue effectiveness and maturity are seeking either to improve their current situation or recognise the need to examine their performance in order to remain profitable.

Below are the 7 Phases of Sales and Trade Revenue Management Maturity that a manufacturer potentially moves through to fully systemise and integrate all facets of sales and trade revenue management:

- **Archaic** - Virtually no management of or control over the trade revenue management process.
- **Rudimentary** - There is an attempt to manage and control the trade revenue management process.
- **Basic** - Sales Professionals use multiple systems and manual procedures.
- **Controlled and Managed** - A trade revenue management system is in place that enables account/product level base volumes to be entered; promotions planned; and deduction/claim management.
- **Operationally Optimised** - Multidimensional fund management systems have been established.
- **Analytically Optimised** - “What If” scenario planning can be performed and results reviewed before committing to promotions.
- **Fully Optimised** - There are facilities within the trade revenue management solution to enable the setup, processing, control, management and payment of fees, commissions, incentives, rebates and royalties.

Once a manufacturer decides to evaluate and consider potentially enhancing their current sales and trade revenue management processes and solutions, the first step is to identify the ultimate maturity goal they will strive for. As part of that evaluation process, it’s critical to define at an appropriate level, what needs to be done to move towards and achieve that goal.

Follow the path to growth below to find out what phase of maturity your organisation is at. Contact Flintfox International to discuss how we can deliver trade revenue management solutions for real-time business intelligence and long-term profitability.
The Path To Growth through Revenue Management lifecycle maturity

START

There is virtually no management or control over the revenue management process.

YES

The claims and deductions reconciliation process is manually performed using emails.

NO

Sales professionals use multiple systems and manual procedures.

YES

At promotions planning and entry, both base and incremental volumes can be manipulated.

NO

A multidimensional analytical tool is available that includes the ability to set up automated checks, based on various budget, planned, projected and actual measures and notifies when these checks are under or over expectations.

YES

There are facilities within the revenue management solution to enable set-up, processing, control, management & payment of fees, commissions, incentives, rebates and royalties.

NO

OPERATIONALLY OPTIMISED

YES

ANALYTICALLY OPTIMISED

FULLY OPTIMISED

ARCHAIC

RUDIMENTARY

BASIC

CONTROLLED & MANAGED

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ABOUT FLINTFOX

Flintfox is the Microsoft Global ISV (Independent Software Vendor) for Trade Promotion Management Solutions integrated with Dynamics AX, NAV and CRM. Flintfox has been developing advanced pricing and trade promotion management software for global manufacturers and distributors for over 28 years. Our experience produces focused solutions that allow customers to continuously improve the quality, accuracy and speed of their sales planning, administration, and business analytics decisions.

For more information on the Flintfox Revenue Management solutions visit us at: www.flintfox.com