



March 2009

Providing periodic insights to food industry suppliers

# The Technomic Viewpoint

**Here are three potential approaches that may help you better manage trade costs.**

## Bring Trade Spending into Better Focus By Gary Karp

At our recent Foodservice Planning Program, clients viewed fresh research on the topic of trade spending. The overarching theme of the study was “best practices.” During our interviews with some manufacturers, however, we made additional observations that went beyond what was presented. In the spirit of helping manufacturers identify ways to improve their trade spending management and results, we decided to share three potential opportunities with the broader community.

As background, the Planning Program study identified two major categories of trade spending:

**Investment**—where the trade is based on some type of performance that yields an ROI; and,

**Insurance**—where the trade is primarily guaranteed and is usually given in the hopes of preventing a negative event or outcome relative to the business.

Further, we identified that in most companies trade spending is:

- two to four times greater than the cost of their sales force
- the second largest P&L line\* after cost of goods
- growing faster than sales, and
- is larger than most manufacturer’s bottom line.

With those “comforting” thoughts and facts as background, here are three potential approaches that may help you better manage trade costs.

1. **Have all hard costs of trade totaled up to one P&L line and have all soft costs of trade (administration) add up to a separate P&L line so they are completely identifiable!**

You may have noticed the asterisk after “the second largest P&L line” above. This was flagged because many companies don’t roll up all the

**TECHNOMIC**

Food Industry. Facts. Insights. Consulting.



*Gary Karp,  
Executive Vice President*

*Gary Karp, Executive Vice President with Technomic, Inc., has 40 years of foodservice industry experience. His specific areas of focus include supply trade spending/revenue management, supply chain management, all aspects of marketing, strategic planning, brand development, category management, and sales organization and design.*

*Technomic helps food suppliers manage their trade spending in a variety of ways, with customized proprietary assistance and/or published research, including:*

- *Key Trade Spending Challenges (January 2009)*
- *Your Most Critical Variable Cost: Trade Spending (January 2008)*

*We are now fielding a special study on Local Trade Spending which includes a company-specific mini audit. For more information, please contact Alan Hyatt, Vice President, at 312-506-3946 or alanhyatt@technomic.com.*

***continued from front***

costs (neither hard nor soft) that contribute to trade and its administration into one total trade line. While they believe intuitively that trade is a big number, most companies tend not to see it in its totality.

**2. Ensure that the authority and responsibility for all of your trade strategy and budget is assigned to one senior person.**

In several of the companies we interviewed, the trade “pot” was divided up in such a way that several groups had transactional responsibility and their portion of the responsibility was its own budget line. The total cost of trade is so significant that most companies should have a senior manager responsible for overall trade spending.

**3. Implement zero-base budgeting for trade spending.**

Many companies budget by taking year-ago figures and incrementally adjusting the numbers. This ensures that past “issues” will likely be repeated. Conversely, a zero-base approach ensures alignment between trade strategy and execution.

The bottom line? Technomic’s viewpoint is that manufacturers can improve the effectiveness and efficiency of trade spending by:

- Making it totally visible.
- Providing senior-management focus on trade execution; and,
- Proactively planning how the funds will be spent.

It’s a very tough business environment and most manufacturers are both getting more pressure for trade while also talking about “somehow reducing the cost of trade.” Something has to give.

Managing trade spending is very difficult, and meaningful changes may occur faster with outside assistance. But trade spending can certainly be done more effectively if these three recommended techniques (and others) are employed to bring the entire issue into clearer focus.

*For more opportunities to improve the efficiency or effectiveness of your trade spending, please contact Gary Karp at (312) 506-3939, or gkarp@technomic.com.*