Export Trade Promotion Funding

How much do you pay for a display or special promotion at your top customer? Retailers from Argentina to Vietnam capture manufacturers' promotion money to drive sales and profits. Brand development and market share are frequently proportional to investment level. In the world of export, you must "pay to play." However, different models exist to fund trade activities. Leading distributors confirm that they work with a variety of different structures. "It's all money" and the key question remains: under which cost line do you want this investment to sit in your price calculation?

Manufacturer Funded Promotion Budget

The classic approach is for the brand owner to develop a joint business promotion plan with the distributor. A spending budget is developed, funded 100% by the manufacturer. The overseas distributor pays the local retailer and sends a billback to the producer, with proof of performance. The rationale for this practice is that the supplier owns the brand equity and can change distributors. Distributors are reluctant to invest their own margin into another companies brand.

Split Fund – "Skin in the Game"

In some cases, the brand owner and distributor split the marketing plan costs, usually "50-50." A further variation exists where the brand owner covers the cost of consumer marketing and the distributor pays for the periodic trade promotion discounts. The philosophy is that the distributor will benefit from higher sales and will also be motivated to execute successful promotions if their own money is invested. This structure appears most frequently with an existing brand, with a minimum three year history of shipments. In reality, the distributor calculates the expected investment and builds it into his cost structure. A "50-50" shared model will usually not be accepted with a new brand pioneered for the first time.

Best Price – Dead Net

Dead net pricing is the third model. In this scenario, a manufacturer provides a distributor with his very best price. The distributor builds in all promotional support and his margin into his calculation. In this case, the manufacturer does not receive a constant stream of requests for more promotion funding. However, the brand may lose control of their pricing model or be under supported if the distributor fails to promote at adequate levels.

10% of Sales – $1/Case

Another common model is for a manufacturer to establish a fixed funding rate per case sold which the distributor invests to build the brand. Normal funding begins at 10% of case cost, but can accelerate to 20% or more for a competitive category. Some manufacturers offer a flat rate per case or amount per container. As mentioned before, it ultimately converts to a pile of money to invest in brand building. This approach functions best with a brand with a current sales history, as percentages don't mean much when the brand has zero sales.

Listing Fees

These one time payments are primarily covered by the brand owner as part of upfront launch costs. Sometimes these fees can be rolled into introductory promotions, spread out over twelve months, or paid via free goods. Please check out Export

Solutions' article *Ten Tips: How to Minimize Listing Fee Payments* for more ideas on how to reduce these payments.

Most Effective Promotion Vehicles

Every key account manager should know the best promotion vehicles to drive incremental sales at their customer. At some supermarkets, promotional leaflets drive tonnage. At others, deep discounts (30% +) or displays are winners. Distributor sales teams are market experts and can source best practices from their other brands.

Post Promotion Analysis

Tools are available to measure promotion effectiveness. These evaluate sales lift, boost in baseline consumption, and cost per incremental case. A good idea is to analyze mutiple scenarios such as different price points, seasonality, and display support.

Creativity Counts

Many of the best trade promotion success stories involve field activated promotions. This allows a brand to break through the clutter of too many "me too" events. The sales team maintains ownership and enthusiasm to drive support. Another positive strategy is aligning with a retailer's favorite charity to contribute to the community while building your brand. Manufacturers must avoid the dull routine of repetitive 15% trade promotions. Boring!

Key Issue – Distributor Underspends

Distributors are businesses, aimed at achieving a fair profit, just like your company. A risk occurs whenever distributors claim responsibility for managing the trade discount plan for their country. At times, these trade discounts can be under spent versus category and brand requirements. For example: when a distributor says that he will fund four promotions per year, does that mean at a 10% level or 30% level? Will the distributor funded promotions be for all channels and retailers or just a few customers? How do you know?

Compliance and Audit

Most distributor contracts include provisions for audit of trade promotion payments. Larger suppliers include trade promotion payment software. Good practices are complex and require piles of paperwork. A core message is that the "distributor respects what the manufacturer inspects."