



# TRADE PROMOTIONS

*...the Bad, the Ugly and the Good*

Trade promotions are the life-blood of high-volume manufacturers and distributors. Over the years, these promotions have proven to be successful product movers and highly effective revenue generators.

While the concept of trade promotions is a viable one, managing the promotions is extremely challenging due to the volumes involved, the various types of promotions, pricing variations, forms of collection, verifications and the stringent requirements of the target of the promotions themselves – larger retail outlets. Inefficient supplier tracking and poor coordination frequently undermine promotional programs, significantly impacting supplier revenues.

Typically, promotions take the form of off-invoice allowances. However, they can also involve bill back allowances, net price product adjustments, advertising sponsorships and rebates.

For “off-invoice” allowances the supplier reduces the invoice cost of a product to a company for a limited period (e.g., a reduction from \$10.00 to \$8.00 in the company’s invoice cost to purchase a case of product units); “Bill-back” allowances are similar to off-invoice allowances, except the allowance is made separately from the invoice, which reflects the regular cost of the product to the company; For “net price product adjustments” the supplier permanently reduces a product’s invoice price to reflect the promotional allowance; In “advertising sponsorships” the supplier pays the company a fixed amount to be featured in company produced promotional and advertising materials;

With “rebates” the supplier makes cash payments to the company upon meeting selected criteria.

Retail outlets typically claim promotional compensation by taking deductions when paying supplier invoices. Therefore, a major challenge for credit managers in supplier companies is separating earned deductions from unearned claims. If not managed properly, unearned deductions can result in thousands of dollars of write-offs. In fact, most suppliers have difficulty separating authorized and unauthorized deductions without a great

deal of research. With deduction allowances increasing at a high rate, the trend is for companies to approve all deductions without thorough investigation. In a simple scenario, a company with 10,000 invoices a year and having only two deductions per invoice, has to manage 20,000 deduction transactions per year.

In a 1997 report by the Collection & Credit Risk Management Association, it was estimated that unauthorized deductions accounted for \$10 billion a year with a projected growth rate of 20% annually. The inescapable conclusion is that promotions must be carefully managed to ascertain vendor compliance and ensure supplier revenue.

In 2002, AC Nielsen, in a report on Trade Promotions, stated that U.S. manufacturers spent an average of twelve to fifteen percent of gross sales on trade promotions during the ten-year span of 1991 to 2001. These percentages are dramatic indicators of the need for stringent trade promotion management.

A wide variety of businesses deal with trade promotions. Typically, trade promotions are associated with Food and Beverage, Personal Care and Home Care products. However, Furnishings, Soft Goods, Hardware Stores, Automotive Accessories and Electronics all conduct trade promotions of one form or another. The commonality is that all the suppliers and retail chains operating within these sectors must have the means to track and manage the promotions.

Unfortunately, suppliers and retail chains often waive or ignore promotion rules due to the volumes involved, the reluctance of sales personnel to approve each order and the lack of adequate tracking procedures. The result is that the retail chains often take deductions to which they are not entitled and the suppliers “pay the price” through lost revenues

### **The Basics**

Trade Promotion Management is really the “tip of the iceberg.” Doing business with retail chains above all requires good supply chain management. Suppliers cannot function effectively and profitably

within this environment without good supply chain management, the foundation of which must be a highly efficient ERP System. Additionally, suppliers should utilize EDI. Larger retail chains conduct business via EDI and typically dictate the terms and conditions that suppliers must adhere to within the EDI platform.

Suppliers must have good financial controls in place, particularly in today's highly charged environment where executives are being held responsible for the financial reporting of their organizations. While many ERP software solutions claim to offer powerful accounting functionality, suppliers must scrutinize the degree to which the accounting software offers the stringent controls and drill-down capabilities necessary to effectively manage trade promotions.

Suppliers dependent on trade promotions should also seriously consider integrating a Customer Relationship Management (CRM) solution. Because retailers are relentless in their requirements for on-time deliveries at specific negotiated prices, CRM Systems can give suppliers an edge.

### **The Trade Promotion Matrix**

Typically, promotions are based on the Order Dates or Requested Delivery Dates.

Promotions are also based upon Stock Code, Product Group, Product Class or Department, as well as Quantity, Weight or Volume. Promotions can also be defined for specific customers, for a specific customer class, or for a geographic area. The Promotion Type is often based upon a specific price or discount percentage. And finally, the Promotion can be defined as an Off-Invoice Promotion, where the value displayed on the invoice is affected, or as an Accrued Promotion, where the value of the promotion is held in an accrual account until it is resolved in one way or another. Accrued promotions are reflected in the General Ledger as Liabilities.

*Off invoice promotions*, which can be percentage or price discount based, take the form of:

- Order Promotions, which affect the order as a whole based upon promotion rules governing the quantity, weight or volume being shipped
- Price Changes, where the price paid for the item is defined by promotion rules
- Line Promotions, which affect just the line that is being purchased, again based upon the pre-defined promotion rules.

Off invoice promotions are earned upon shipment of the merchandise lines. The invoice amount is reduced by the value of the promotion. Promotion qualification is not based solely on what is shipped.

*Accrued promotions* are matched to specific Deduction Codes and General Ledger Accounts. They take the form of: Bill-Backs; Slotting; and Rebates. The value of the accrued promotion does not affect the invoice amount, and all dollar values of accrued promotions are accrued in the General Ledger as Liabilities. Therefore, a Trade Promotion Management System must support:

- Multiple line item selection of qualified promotions in Order Entry.
- Automatic application of all qualified promotions for incoming EDI orders.
- Tracking and Review facilities prior to payback to the customer by check or credit or for customer refund

### **Deduction Management and Review – the Requirements**

Numerous facilities are required for the management of deductions. The following are some of the basics:

- Deductions are captured when the Accounts Receivable payments are processed
- A/R invoices are adjusted to reflect deductions taken
- Expanded reference fields are available to reconcile transactions.
- Deduction amounts can be changed and split between deduction codes within one screen

During review and reconciliation, a System must provide the ability to:

- View open and closed deductions
- Select deductions by sub account, deduction code, transaction date, follow-up date and amount ranges
- Maintain notes and follow-up dates
- Automatically write-off small amounts
- Automatically generate accounting transactions and re-instate unauthorized deductions as A/R debit memos.
- Resolve, write-off and match deductions to available accrued promotions and to change the deduction code.

### **The SYSPRO Solution and Why It Makes Sense (and Dollars) for SME Suppliers**

Until recently, small to mid-size manufacturers and suppliers attempting to manage promotions have had limited choices, ranging from labor-intensive investigations and time-consuming manual calculations to costly, tier one, high-end software Systems or to stand-alone solutions that require extensive System integration.

The SYSPRO Trade Promotion Management System (TPM System) was specifically developed for small-to-mid-size manufacturers and distributors that target the Consumer Package Goods and similar industries that offer trade promotions to retail outlets. The SYSPRO TPM System is a natural extension of SYSPRO ERP, which establishes organizational controls, SYSPRO CRM, which manages complex business relationships, SYSPRO Advanced Planning & Scheduling, which promotes on-time delivery throughout the supply chain and SYSPRO E-Commerce, SYSPRO EDI and SYSPRO Web Applications which promote efficient supply chain communications.

The SYSPRO TPM System is extremely flexible and encompasses Promotion Management, Deduction Management, Complex Pricing and Multi-Tier Credit Checking. The System can set-up promotions by order date or requested delivery date ranges; it can qualify promotions by weight, volume or quantity as well as for stock

codes, product classes, product groups or departments. Additionally, it can specify promotions for individual customers, geographic areas or customer classes.

The SYSPRO TPM System enables SME suppliers to plan and execute successful promotions while maintaining tight monetary controls. It automates, manages and controls all forms of vendor allowances, including the handling of documentation and the approval of deals. By automating the research, validation, and settlement of deductions as well as charge backs and claims, suppliers have the opportunity to realize substantial savings and improve cash flow by limiting unearned deductions. Because the SYSPRO TPM System fully links to other SYSPRO modules, suppliers gain all the advantages and efficiencies of a totally integrated System.

The SYSPRO TPM solution lets a supplier set common and practical promotion rules, establish pricing based on individual products, product classes or groups and extend promotions to a select class of customers or geographic areas. It enables users to easily identify qualified promotions and to select them at the time of order entry. Because pricing groups cover multiple line items in order entry, users can easily recalculate prices at any time. Additionally, the System enables product groups to be designated by specific prices or percentage discounts. Off invoice promotions can take the form of price changes, line promotions or order promotions. The System facilitates the tracking of accrued promotions, matching them with specific deduction codes and even automatically applies applicable pricing for qualified promotions for incoming EDI orders. A Deduction Review Facility allows credit managers to easily authorize or reject and reinstate deductions.

The SYSPRO TPM System provides the facilities to:

- Establish promotion rules
- Setup complex pricing rules
- Accurately price sales orders based upon pre-defined rules
- Setup deduction codes by category
- Establish a deduction review facility, a must

- for businesses operating within this environment
- Capture deductions when A/R cash is applied to the customers account

Moreover, the SYSPRO TPM System provides full integration across the System to SYSPRO General Ledger, Accounts Receivable, Sales Orders and EDI, an important consideration to establish operation efficiency.

### **SYSPRO TPM System and Complex Pricing**

Promotional pricing can be very complex. Typically, prices are defined based upon one of the following: Stock Code, Product Group, Product Class or Department.

Promoted products are typically offered using bracket pricing. Sometimes the products are priced based on weight or volume or on a customer's class or region. Price is often based upon whether the items being purchased are for Delivery or Pick Up – where the items being purchased are either delivered to the customer, or alternately the customer indicates it will pickup or collect the goods.

All in all, it can be a daunting task for a sales person to arrive at a correct price when entering an order. However, the SYSPRO TPM System accommodates all variances. Because pricing groups cover multiple line items in order entry, users can recalculate prices at any time. The System enables product groups to be designated by specific prices or percentage discounts. Additionally, off invoice promotions can take the form of price changes, line promotions or order promotions. The System facilitates the tracking of accrued promotions, matching them with specific deduction codes and even automatically applies applicable pricing for qualified promotions for incoming SYSPRO EDI orders.

The process of approving promotional allowances can be overwhelming, if not complex and time consuming. With automatic generation of accounting transactions, the SYSPRO TPM System facilitates promotion review, allowing paybacks to the customer in the form of cash or credits. Deductions can be captured during Accounts Receivable payment processing.

The SYSPRO pricing matrix can also relate to pricing thresholds based upon Quantity, Weight or Volume. Once the threshold has been defined, pricing is automatically applied.

The SYSPRO TPM System also provides optional extensions to the standard pricing matrix. These extensions include Geographic Area and/or Customer Class, extending the pricing to include either or both.

The system also takes into account additional issues that affect pricing, such as multiple line items in a single sales order; ability to re-calculate prices at any time and the automatic application of the complex pricing matrix for incoming EDI orders.

### **Invoice Accuracy**

When submitting payments, customers often make deductions for a variety of reasons. Some may be for advertising or promotional allowances; others may be per contract; and still others may amount to fines for vendor non-compliance. Because suppliers often sell to large chain retailers, it is often the case that one check from a corporate headquarters is meant to cover payments for several chains, which may not even have the same name. At any rate, the reconciliation of deductions creates a tremendous administrative burden and cost both for the supplier.

The SYSPRO TPM System provides a tabular list of the deductions captured during Payments and Adjustments processing. Facilities in the System:

- Select both active and closed deductions on several levels
- Change the customer for all or part of the amount
- Change the deduction code for all or part of the amount
- Resolve a deduction
- Resolve a deduction by matching it against available accrued promotions
- Reinstate a deduction by generating a debit memo
- Automatically write off small amounts
- Keep notes and maintain a follow up date
- Automatically generate accounting transactions when a deduction is changed or resolved
- Write off a deduction

### **The SYSPRO TPM System Flow**

The SYSPRO TPM SYSTEM flow starts with Sales Order Processing. Once the merchandise lines have been added, the Complex Pricing and Qualification Rules are applied to the items. Then, Accounts Receivable is updated through Invoice Processing.

When the customer pays for the items, the payment is processed as a Cash Receipt. At the time the Cash Payment is processed, the System checks to establish whether deductions and allowances need to be taken into account.

The Deduction Review stage updates the TPM System and Accounts Receivable tables as required, depending upon the actions taken. And finally a Promotions Review facility updates the TPM System, Accounts Receivable and/or Accounts Payable tables.

### **SYSPRO Multi-Tier Credit Checking**

Integration with SYSPRO ERP modules enables TPM System users to take advantage of multi-level credit checking capabilities. Facilities are available to establish multi-level hierarchy of customers contained within the ERP System in addition to corporate holding companies, external to the System. Credit limits can be set and checked against any level; Selective inclusion of outstanding deductions can be addressed in credit checking; and Credit limit checking can be made for SYSPRO EDI orders

The SYSPRO TPM System establishes a multi-tier credit checking hierarchical relationship between both **active** and **non-active** customers. An “active” customer is one that is part of the SYSPRO ERP System, while an “inactive” customer is one defined within the TPM System sub-System itself.

Inactive customers are linked into the overall credit checking hierarchy that is defined for a group. Credit limits may be linked to inactive customers and taken into account when the credit limit is checked.

From a multi-tiered credit checking perspective, a credit limit needs to be set and checked against

the highest tier within the hierarchy. All lower tier transaction will be rolled up to the highest tier for credit checking purposes.

The facility to selectively include Receivable Deductions in the credit checking process is also included, as is automatic multi-tiered credit checking for EDI orders.

### **SYSPRO TPM System Reports**

The SYSPRO TPM System includes a host of standard reports, provides the facilities to generate custom reports as well as to write reports using third party reporting tools. SYSPRO developed data dictionary tools facilitate reporting on information within the TPM module using the SYSPRO Report Writer or third party reporting tools.

### **Full SYSPRO ERP Integration**

ERP integration is sadly lacking in many of the Trade Promotion Management products being offered today. Either the product being offered is considered to be “stand-alone” whereby the issues of TPM are dealt with in an isolated fashion, or the solution is designed for the high end Fortune 500 companies, and therefore out of the price range for the small to medium business.

Because the SYSPRO TPM System integrates with SYSPRO General Ledger, Accounts Receivable, Inventory Control, Sales Order & Invoicing modules, among others, data entered into the TPM System automatically updates data in all the associated modules. With integration into SYSPRO EDI, orders transmitted in this manner can be automatically entered with applicable pricing for qualified promotions applied. Additionally, with integration into Microsoft Outlook, email confirmations can be automatically generated. Furthermore, integration with SYSPRO Customer Relationship Management helps to advance complex business relationships, while integration with SYSPRO Advanced Planning & Scheduling helps to maximize on-time deliveries throughout the supply chain and integrations to SYSPRO E-Commerce, SYSPRO Web Applications and SYSPRO EDI serves to facilitate supply chain communications.



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