



A&M SERVICES

TRADE TERMS TRANSFORMATION SERVICES

Trade Terms Transformation in the wake of increasing European regulatory pressure

Trade Terms (TT) have been a sensitive topic in the relationship between retailers and suppliers over the last few decades. Despite the good intention to offer a rebate structure that reflects the cost and value drivers, the implementation has not brought the intended transparency or a healthy base for negotiation. Far too often, the short-term vision by those responsible for implementation has resulted in negotiations based on total rebates, and is followed by an artificial translation in listed trade terms. This behaviour is driven by lack of knowledge or misunderstanding of the underlying principles.

Progress in IT has made it easier for retailers to request harmonised pricing across borders. Customer consolidation in the form of mergers and acquisitions has exposed widely varied trade terms and structures within markets and even individual customers, enabling customers to “cherry-pick” the best conditions from their consolidated contracts. A similar situation arises with the existence of buying alliances of national (e.g. Auchan and Systeme U in France) and international scale (e.g. ICDC). The scale and related bargaining power of these conglomerates has increased dramatically, allowing them to put even more pressure on local and international organisations.

The fact that online, bricks-and-mortar and hybrid retail formats are in competition and sometimes operate under the same brand name, adds to the pricing pressure and promotional aggressiveness in Europe. Consequently, retailers search for ways to release some margin pressure onto their suppliers who are not always backed by clear trade terms. Often, trade terms documentation is not written to handle such complexity.

On top of the business context, new and emerging regulations are being implemented which require more transparency. Internal centralisation at global retailers and international buying groups and members of COOPERNIC and AGECORE/ALIDIS will further drive the influence of this new legislation to markets which are not yet fully impacted. The latter should not be a threat - rather the perfect trigger to (re) start the transition process of historically “total trade spend” (TTS) driven systems to a long-term sustainable approach. It is in both retailer’s and supplier’s interest to get (or make) this right.

It is important to bring the right perspective to the exercise and provide the support, commercial savviness and leadership to assure the changes to trade terms go beyond theory and are implemented in a realistic manner. Alvarez & Marsal (A&M) brings the necessary experience to the table. Not only do we drive the development of the trade terms architecture but we also support the implementation, in collaboration with those responsible for the commercial relationships.

¹ The revised competition and antitrust laws in Germany (9. Amendment GWB § 20), Switzerland (StGB 322), Romania (EGO 39), Czech Republic (Act No. 50/2016 Coll., known as “the Market Power Act” - “MPA”), France (LME - Loi de Modernisation de l’Economie) and many other European countries are forcing suppliers and retailers to re-structure their existing contracts, terms & allowances and deduction base.



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ALVAREZ & MARSAL

A&M's approach to Trade Terms Transformation

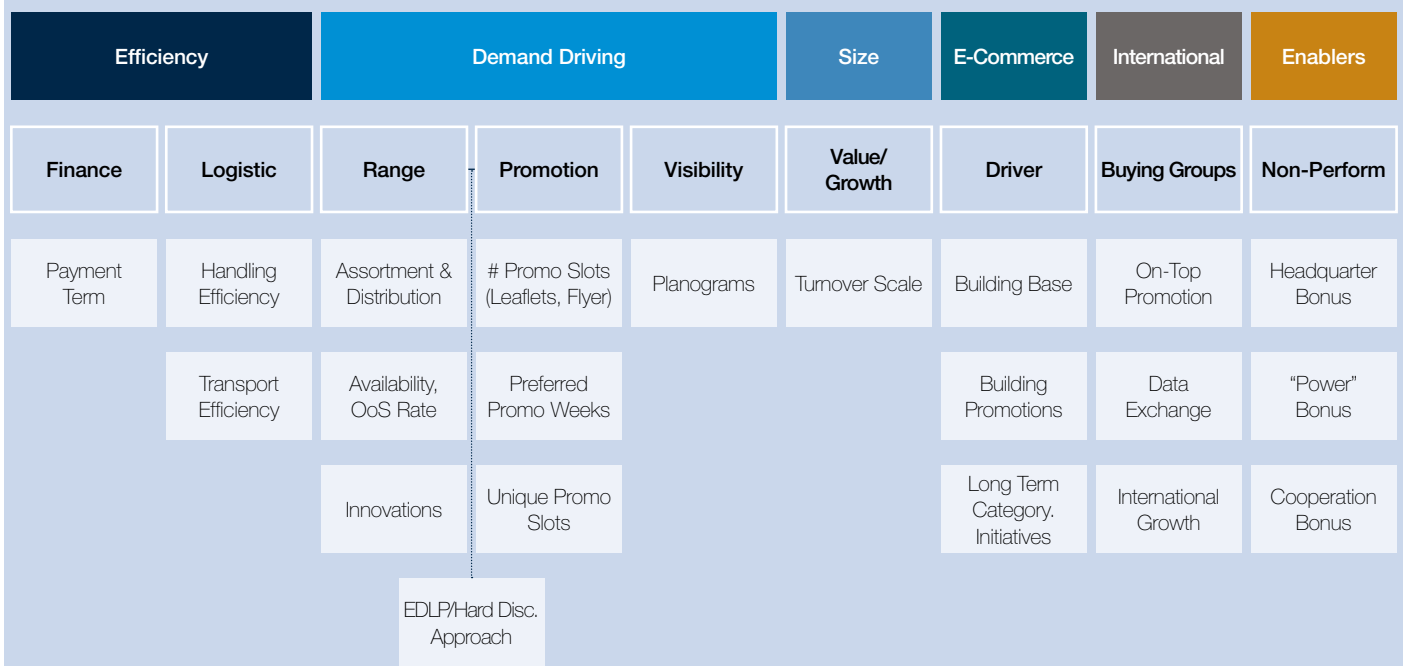
Trade Terms Transformation objectives:

- Create internal Total Trade Spend (TTS) transparency
- Optimise existing trade spends and future investments based on performance
- Develop a TTS policy based on principles and guidelines reflecting the specific category and business environment of local markets
- Build a solid and consistent framework across channels and customers that is defensible in an M&A context
- Enhance commercial versus customers' power, creating a clear framework that defines the limits of negotiation for sales teams and Key Account Managers
- Evaluate and carry-out shifting, re-allocation and folding opportunities
- Harmonise TTS (as far as possible)
- Drive profitable growth
- Adhere to the (new) legislation

Transformation 10 steps

1. Select the future investment buckets and TTS architecture
2. Determine the maximum level of investment
3. Define the principles and guidelines
4. Evaluate customer performance vs. maximum values
5. Adjust current discounts at customer level
6. Develop a "sell-in story" and an internal and external communication plan
7. Train sales teams on how to manage objections and push-back
8. Establish standardised customer contracts
9. Define the implementation timeline
10. Monitor, review and adjust continuously

Example of a TTS architecture



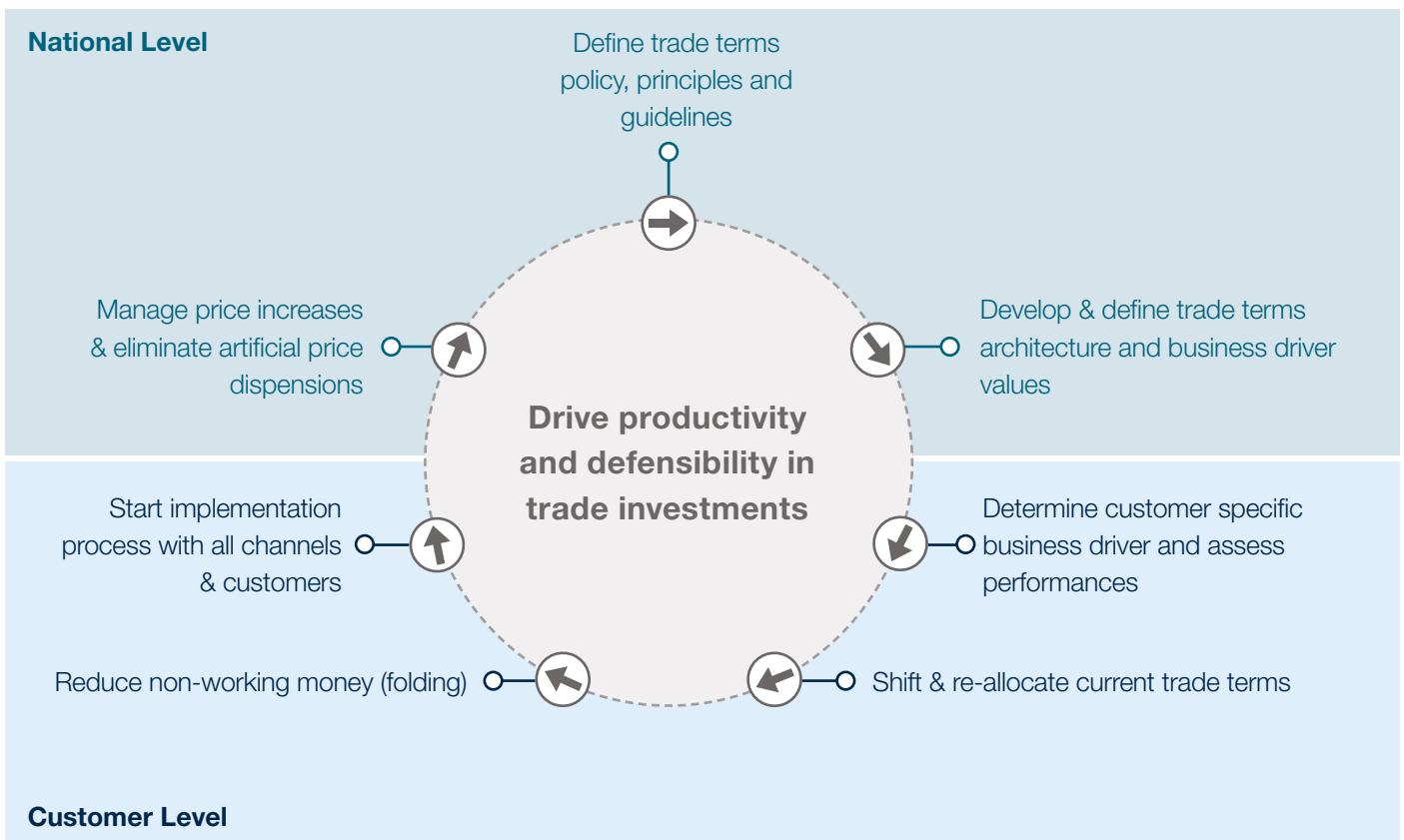
The benefits of our approach:

- Increased focus on performance: newly defined terms for clear pay for performance and clear separation of conditional-versus unconditional terms to make remaining non-performance terms manageable
- Increased focus on profit: with a cutback of ‘inflated list prices’ and number of Trade Terms, enhancing the net-effect from list price, increases and future launches
- More transparency: less terms, clear definitions and rules, reduced complexity, simplified administration and improved TTS management and transparency
- Reduced future risks: with uniform TTS structure, reduced playground for TTS negotiations, lower deduction base for future investments and more manageable total TTS spreads

The transition process is depicted below (see Diagram 1) and operates at two levels: a national and a customer level. The process also includes a migration from a historically “Total Trade Spend” driven system to a cost and value driver based Total Trade Spend term system.



Diagram 1 – A Two-Level Transition Process



A&M's key success factors:

- Summarise the "TTS Bible," which is a TT system handbook based on principles, guidelines and examples reflecting the company's strategy
- Provide customer contract templates and standard Terms & Conditions of sale
- Incorporate the handling of price increase strategies to underpin profitable growth
- Align the TTS implementation process/roll-out plan with the core project team
- Evaluate and propose the necessary resource and system requirements to handle different approaches with trade partners
- Provide key account managers with training and personal coaching:
 - Outline the TTS objectives
 - Provide an overview of the TTS architecture
 - Explain the usage of clear TTS principles & guidelines
- Align the long-term transition plan of the new structure per customer
- Simulate retailer negotiations and train TTS dialogue (including negotiation role plays)
- Provide hands-on support on upcoming retailer demands
- Support key account managers to avoid or reduce future price erosions and "penalty boxes"
- Facilitate the preparation of the next annual negotiations

For all key account managers, we typically provide custom face-to-face coaching. Our team is experienced in developing tailored solutions to close identified gaps between the ideal agreement and current contracts.

In conclusion



Our ultimate goal is to create a consistent and defensible trade terms structure that is tailored to the local business environment, with the benefit of:

Improved Trade Terms transparency

Optimised (current) discount value

Reduced Net-Net-price discrepancies

Streamlined internal handbooks with clear principles and guidelines

Increased visibility on investments structure based on Pay for Performance

Increased positive impact on profitability



The A&M Difference

Alvarez & Marsal brings experienced operators who have held previous commercial and operational leadership roles to the table. We deliver and work hands-on with our clients. We know where to look to identify and validate improvement opportunities that enable you to deliver results quickly. We know how to engage and create buy-in from leadership and commercial teams and we're experienced at embedding and sustaining the required changes in behaviour across teams.

In addition, we help instil a sense of urgency and focus so that management can reprioritise business opportunities. We achieve this by being objective, activating hands-on support and focusing on truly understanding how commercial investment ultimately converts engagement into increased sales and profits.

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ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) when conventional approaches are not enough to make change and achieve results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services.

With over 3000 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, help organizations transform operations, catapult growth and accelerate results through decisive action. Comprised of experienced operators, world-class consultants, former regulators and industry authorities, A&M leverages its restructuring heritage to turn change into a strategic business asset, manage risk and unlock value at every stage of growth.

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