

Unhealthy obsession with dealing

BY DAVE HENDRIE

When you do a price deal, most of a price drop portion impacts negatively on the bottom line, unless you can generate a significant sales volume uplift. If the deal spikes sales, the supply chain impact can be devastating! So why is the South African fast moving consumer goods (FMCG) industry so obsessed with this 'drug' called continuous price dealing?

Staying competitive the wrong way?

Walmart, the biggest company on the planet, uses every day low pricing (EDLP) specifically to smooth spikes in demand – that's how seriously they regard consistent, in-stock availability for their shoppers.

I see sales teams who continually offer deals to be price competitive on shelf. Clearly there is something fundamentally wrong with their whole pricing architecture. The marketing department is responsible for relooking at the day-to-day, off-deal pricing (often the list prices) and to rework these prices so that they deliver day-to-day retail sales prices that meet consumer affordability and specific price points without sales having to continuously deal.

Pricing claims

The moment you change a price (via a deal, for example), you are opening your company up to a possible claim of some sort. Pricing claims are a significant contributor to the overall credit notes scourge (which include damages, goods returned, goods not ordered, stales, wrong coding and linking of accounts to their buying groups etc). I come across companies where 80% of their invoices are 'recycled' every month and pricing claims are by far the biggest culprit! The cost of the rework, disruption to the order processes and cash collections is staggering! When I ask what they're doing about it, I'm told that it's just a cost of doing business in the fast moving consumer goods (FMCG) industry in South Africa. What rubbish!

The blame game

I have strong views on companies allowing dysfunctional sales employees (ie those refusing to follow procedures) to create havoc (and at the same time get paid handsome salaries) in their organisations. They are amongst the prime causes of pricing claims arising out of the dealing/discounting process. I use the word 'dysfunctional' because there are employees who consistently refuse to follow the company's processes – usually from poor discipline from the top in the key accounts department. The administration component of managing key accounts is more important than ever and the best key account manager (KAM) understands this. The rest see it as an intrusion into the 'fun' parts of their jobs – dealing, haggling, entertaining and travelling.

Sales people claim it is the debtor department's problem and don't take responsibility for the mess. The best companies make reduction in pricing claims part of the KAM's annual performance review with a direct link to bonus, salary increase, promotability and future in the department.

Have you ever sat down with your debtors people and asked them what prevents them doing their jobs effectively? The stories they'll tell are very disturbing – employees not following company procedures, deals in late, accounts opened without proper authorisation, prices don't match customer's master files, no regular communication on new store details, etc.

Most companies don't bother to meet with their customer's creditors people and understand their processes. They then wonder why they have a mountain of monthly pricing claims. Part of managing down your pricing claims involves regular meetings with customers and taking the trouble to understand their pricing systems and aligning your systems to theirs (not the other way around!). Learn the rules as to when the specific customer claims the price – at order capture, at delivery date, best deal in the system, etc? Decide on what date you, the supplier, start and end your deals. Do you understand your customer's 'rounding off' policy? What does your internal pricing architecture and key account pricing mandates look like?

In my experience, 90% of pricing claims are the supplier's fault! Yes, 90%!

Chancers among your customers 'stretch payments'. This is as much a sales' as it is your debtors department's responsibility. Check your internal processes to make sure your house is in order, meet with the customer, take time to understand their side. Then, if you smell something fishy, act swiftly and firmly. By getting involved, you send a strong internal message to the company that you have the company's best interests at heart regarding cash flow.

Marketing promotions

A very dangerous two-pronged trend has emerged in the past 10 years. Manufacturers have 'trained' shoppers to 'follow the specials' by continuously dealing – and then the dealing has been largely funded out of money that should have been spent on brand building. Marketing spend as a percentage of sales has been declining (with the notable exception of Procter & Gamble – in its categories, the biggest advertiser on the planet). Continuous dealing devalues a brand's equity in the shopper's (and consumer's) mind.

Finally, relook at the frequency of your dealing and I guarantee that:

- Price claims will go down
- Your brand equity scores will go up as you redeploy money back into brand building and your consumers will see consistent value through stable pricing
- Service levels to your customers will improve as you produce more accurate sales forecasts and your supply chain planners schedule equipment and procure more efficiently!

And the end result? You don't have to have massive pricing claims each month!



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