How grocery suppliers can spend less and earn more

PUBLISHED: 21 Oct 2014 PRINT EDITION: 21 Oct 2014

Amid the supermarket price war, reining in trade spending may be the easiest way for food and grocery suppliers to boost their bottom line. **Photo: Andrew Quilty**

Sue Mitchell

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Data analyst Jelle de Jong says telling a food and grocery supplier their trade spend is out of control is like telling them they are overweight.

“They know you’re right – everybody feels this is an area where they can do better, but it’s like dieting,” said Mr De Jong, managing director of data analytics company Lexia Analytics.

“Everybody feels it’s something they should be doing but it’s the least sexy thing in their work week,” he said.

Australian food and grocery suppliers are handing over one-quarter of their annual sales to retailers in the form of rebates, discounts, promotional allowances and listing fees.

For many their annual trade spend budget is their single largest cost and exceeds their annual net profit.

However, few suppliers know what return they are making on their investment, Mr de Jong said.

As sales and margins come under pressure amid a price war between the major supermarket chains, independent retailers and discounters Aldi and Costco, reining in trade spending or getting a better bang for their buck may be the easiest way for suppliers to boost their bottom line.

Mr de Jong said that unlike marketing and advertising expenditure, which is relatively simple to track and measure, trade spend is fragmented and complex, dispersed across multiple accounts, outlets and products.

“You’re not signing off a $100,000 ad campaign but you’re signing off on $3 a case or a 1 per cent rebate – they’re all tiny little bits and as a result they get lost quite easily,” he said.

“Any monkey can hit his advertising and promotions [targets] and his overhead numbers – they’re big chunks and you can control them quite easily.

“But to have good control of your trade spend is like landing a [Boeing] 747 on a postage stamp – it comes in so many small different packages but it carries such a big punch because it adds up to such an enormous number.”

Strong local demand

Lexia Analytics was established by Mr De Jong and his business partner five years ago to analyse and optimise trade spend by consumer goods companies. Based in Singapore, Dutch-born Mr de Jong says Australian consumer product companies now account for half the firm's business, prompting Lexia to open an office in Sydney.

"Everybody in the Asia-Pacific [region] really struggles with this," the former Unilever, Diageo and McKinsey executive said. "It's probably the main thing that keeps the average chief financial officer awake most of the night."

Consumer products companies often lack the systems to accurately track trade spend and lack the technology and expertise to analyse the data.

"If you're growing 25 per cent a year, trade spend is not something you worry about. But when your top line stops growing this is one of the last areas and most difficult areas to get under control," he said.

While the major supermarket chains account for the bulk of suppliers' trade spend in Australia, Mr de Jong said rebates, discounts and allowances paid to independent retailers were usually more opaque. "The supplier may agree to a promotion or rebates with the wholesaler but 40 per cent of the retailers may never get involved in the promotion even though they're buying at a discount," he said.

Mr de Jong said there is scope for suppliers to spend less on rebates, discounts and promotions and lift sales and earnings by redirecting spending into areas that deliver the best returns.

"In our experience suppliers can expect to save about 5 per cent of trade spend on average and it would go straight to the bottom line," he said.

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