



A&M INSIGHTS

FUELLING SUSTAINABLE GROWTH THROUGH INCREASED COMMERCIAL SPEND PRODUCTIVITY

Despite ever-increasing sales and marketing budgets, many businesses are struggling to achieve profitable growth in highly competitive markets characterised by an abundance of choice and diminishing brand loyalty.

Businesses in most industries are under increased pressure to identify and capture new, sustainable sources of profitable growth.

Management teams must, therefore, find and channel the right funds and resources behind those growth opportunities that have the highest potential in the long term.

The challenge for business leaders is how to improve the effectiveness and efficiency of commercial spend without jeopardising the top-line.

With further mid and back office savings becoming more and more difficult to achieve, the spotlight is now moving to the more complex front office which has not yet in many businesses been subject to the same level of rigorous scrutiny.

Management teams often have only limited insight into the real effectiveness and financial return on their commercial investments and ever more demanding consumers and customers together with a proliferation of communication channels and touchpoints further complicate the situation.

Creating value and sustaining growth in the long term

Our experience has shown that while it is relatively easy to make short term performance improvements, the challenge is how to create value and sustain growth over the long term. This requires **leadership** to effect changes to behaviours and ways of working, **underpinned by fact-based insights** about what activities are working and why.

CEOs, CFOs and sales and marketing directors are increasingly asking the following five questions:

1. "Where do growth opportunities lie and how can we be more focused on realising them?"
2. "Are we spending the right amount on sales and marketing to grow our brands and overall business?"

3. "Can we reduce our commercial spend through effectiveness and efficiency gains without adversely impacting on our strategies and top-line growth?"
4. "Are we investing behind the right consumer touchpoints and marketing activities to drive sales of the right brands in the right channels and outlets on the right terms?"
5. "How can we instil greater accountability for commercial outcomes and financial results?"

Answering these questions requires a quantitative as well as a qualitative lens. There is still significant headroom in better aligning investment decisions with commercial strategy and improving ways of working. A rigorous evaluation needs to include both direct commercial spend and the hidden costs of 'doing business.'

Two principal performance levers

Companies successfully linking commercial spend and financial returns typically focus on two different principal performance levers:

- Identifying the right focus areas for commercial spend
- Institutionalising the right ways of working within management and the commercial teams

By 'identifying the right focus areas for commercial spend,' we mean better allocation and channelling of resources to deliver the best results in terms of profitable and sustainable growth.

Even sophisticated consumer products companies do not always have the tools needed to inform decisions about the allocation of commercial spend against brands, regions, channels, outlets and consumer touchpoints, both above and below the line. Although they may track brand health, conduct link tests, measure penetration and track performance against brand strategy goals and competition, they rarely have a sufficiently granular fact-base to inform investment decisions based on the expected returns.

Alvarez & Marsal works with a few select research partners that offer easy to use – but not simplistic – tools that can quickly generate new and relevant insights.

One such research partner is Integration, whose Market Contact Audit (MCA) introduces a unique single currency, Brand Experience Points (BEPs), that is comparable across markets, brands, regions and consumer touchpoints. BEPs measure both the influence of touchpoints in each category and market along with the degree to which consumers associate brands with these touchpoints. A company's share of BEPs has shown to be strongly correlated with its future market share. Therefore, this measure allows for a deeper understanding of the relationship between commercial spend and commercial outcomes.

However, creating a solid fact-base through research is not enough. Successful companies also usually seek external help to steer the right management discussions and support decision making with the aim to make sales and marketing more effective, more efficient and more accountable. This requires not only translating the research results into business language and actionable insights, but also bringing the necessary leadership, challenge and passion to overcome barriers to change and improve the quality of often contentious management resource allocation discussions.

“A&M delivered a lot of value in a short period of time: they combine deep sector experience and an operational background with speed and pragmatism. Their senior people do the work. Teaming with them was a pleasure, and I will certainly continue to work with them in the future.”

General manager, Major beverage company

By 'the right ways of working,' we broadly mean the governance, integrated business and commercial planning and performance management processes.

We believe that only by changing existing ways of working can a business achieve lasting change that enables sustainable growth and performance improvement. There is typically some 'low hanging fruit' and it is tempting to primarily focus on those areas. The larger, more complex opportunities, however require a substantial change in tools, processes and behaviour.

Commercial teams often find themselves in situations in which one or more of the following apply:

- There is only limited discipline in making commercial decisions based on market insights and expected returns
- Standards for decision making are not always defined or applied and decisions are either delayed or too often revisited
- The culture is one of rewarding initiatives, but not impact and results
- The governance around changing brand images, promotions, point of sales materials, sampling, events and sponsorships is unclear
- Large and frequently changing sales and marketing teams create complexity and jeopardise the ability to focus

There are multiple ways in which these situations can be overcome in the short term. However, to create lasting impact, changes need to be made in ways that reflect and build on an organisation's culture, maturity and readiness for change. We believe that only experienced operators, not consultants, can quickly understand what is possible in each situation and how swiftly leadership and commercial teams can implement change. (see 'The A&M Difference' on page 4).

Key questions to identify 'the right ways of working:'

- "How can we create better alignment within and across the commercial functions?"
- "How and in which forums should we make commercial decisions as a management team?"
- "What commercial key performance indicators and diagnostic metrics should we focus on and why?"
- "How can we incentivise individuals to act as owners of the company?"
- "How do we ensure greater alignment with our above and below the line agencies around the drivers of commercial outcomes and financial performance?"

Case study: Fuelling growth through productivity gains

The CEO of a €1 billion beverage business, part of a €40 billion multinational, requested support from Alvarez & Marsal as they embarked on an ambitious growth strategy. This CEO wanted to identify additional internal sources of money to fund the new strategy, but also believed the company could make a step change in the way it managed commercial investments.

Our journey began with a brief diagnostic to review the company's local and global commercial spend. During this first phase, we conducted more than 30 interviews with senior management and the commercial team. In addition, we provided external challenge through benchmarks, best-practice insights and tailored local market research. The leadership and commercial teams were fully involved in forming hypotheses, identifying and prioritising opportunities and creating a roadmap and concrete action plans. This provided strong buy-in for the required changes.



Specific recommendations included:

- Reduce spending on already best-in-class communications for global brands that did not sufficiently convert into sales in the local market – without impacting volumes and brand building
- Increase above the line spending for a local flagship brand that converted particularly well in specific target markets
- Reduce spending on unproductive consumer touchpoints – both above and below the line
- Reduce the number of ineffective events and sponsorships and re-allocate spend towards better activating those events and sponsorships that really matter
- Clarify accountability and improve ways of working with point of sales materials – in both on-trade and off-trade channels
- Improve ways of working with local and global marketing agencies, with stronger involvement from procurement to enable improved contract negotiations, vendor consolidation, unbundled services and more transparent rate cards
- Pre-test media campaigns more comprehensively and air campaigns for specific brands over longer time periods
- Selectively reduce gross rating point (GRP) pressure and alternate above the line investments for pairs of non-strategic brands

Overall, the diagnostic identified 15-20 percent of addressable commercial spend that could be better invested, about one third of which translated into direct cost savings for re-deployment or return to the Group. The remaining two thirds were re-allocated to boost profitable growth in line with the company's strategy.

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 businesses to deliver rapid performance improvements. We are skilled in creating buy-in from leadership and commercial teams. We know how to embed and sustain the required changes in behaviour and ways of working.

In addition, we help instil a sense of urgency to address opportunities that management has often been aware of for some time but are still largely unrealised and deemed as 'too difficult.' We achieve this by challenging objectively, active hands-on support and focusing on truly understanding how commercial investment ultimately converts customer and consumer engagement into increased sales and profits.

In summary, investors and management teams are increasingly interested in ensuring that the same rigour is applied to commercial spend decisions as it is to other areas of the business. Alvarez & Marsal can help identify and validate improvement opportunities in commercial spend, create the required buy-in from management and commercial teams, enable businesses to deliver results at pace, and help embed and sustain the required changes in commercial working practices.

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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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