



Chapter VII

Bypassing Legacy Systems Obstacles: How One Company Built Its Intelligence to Identify and Collect Trade Allowances

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ABSTRACT

This chapter describes both the nature of trade allowances and the unique approach taken by one major retailer in overcoming legacy system obstacles in its efforts to identify and collect allowances. Trade allowances have the potential for very substantial returns for retailers and they are often used as a bargaining tool between manufacturers and retailers. Also, the nature of the allowances is that they are rarely ever account-specific and, as a result, are collected by organizations on a first-come, first-served basis. In other words, whichever organization manages to claim the allowance first is generally the organization that will get the funds from manufacturers. As a result, there is only a small body of literature on the subject and virtually no literature that describes the systems used for trade allowance identification and collection. It is

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necessary to understand what trade allowances are in order to fully understand the system employed to identify and collect them, and this chapter provides a brief primer on trade allowances. The chapter then describes the unique approach taken by a major retailer to garner a significant amount of income from these allowances. The approach was novel in that it bypassed the traditional approach that would have been to expend the time and resources to reinvigorate or reinvent its many legacy systems. Starting with less than \$700,000 in trade allowances in the years preceding 1997, the system developed by the retailer has netted them in excess of \$65 million (USD) in 2002.

INTRODUCTION

This chapter describes a unique niche of business referred to as trade allowances and the systems methodology employed by one retailer to grow that segment of its income. The retailer had some experience in negotiating and obtaining trade allowances and had consistently garnered trade allowance revenues of slightly less than \$1 million USD annually versus \$35 million in marketing expenses. In the mid-1990 time frame, the retailer began to compare its trade allowance income with industry intelligence that indicated an aggressive approach towards trade allowance revenue should yield significantly higher returns, i.e., in the range of one to three percent of sales. Since the retailer had in excess of \$3 billion in annual sales, this equated to a potential revenue stream of \$30 to \$90 million annually. Obviously with this amount of revenue at stake, the retailer chose to make the identification and collection of trade allowances one of its strategic goals. Because of the success of the retailer's efforts and the amount of money involved, it is not possible to reveal the real name of the retailer in this chapter. To do so would potentially jeopardize its trade allowance revenue; therefore, the retailer will be referred to as Capital Discount.

A unique characteristic of trade allowances is that they are often not specific to one account. Normally, a manufacturer will set aside one percent of its cost of goods for trade allowances, but will not specify which account will receive the allowances. It is possible that the manufacturer will offer some trade allowance support to one account and not to the other, or have criteria that only certain accounts can meet, such as volume-based allowances. Also, trade allowances are often paid on a basis of funds availability. Therefore, the retailer who can file its claims the fastest will have the advantage (Houk & Association of National Advertisers, 1995). The other characteristic of trade

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