



WHITE PAPER:

The CFO's Guide

Profit Strategy & Analysis for
the Consumer Goods Industry

Having a profitable year? Many consumer goods companies think they know the answer, when, in fact, they often lack the integrated systems and tools needed to automate and analyse profitability measures accurately at the customer, product and supplier level.

To be sure, the general ledger gives CFOs a much needed overall view into profit-eroding costs and expenses. But that overall view only tells part of the story. The rest of the story comes from a richer view that details which customers, products or suppliers are responsible for those costs and expenses. Understanding the impact of below-the-line expenses, such as negotiated and non-compliance related invoice deductions, gives CFOs the answers they need to determine whether retailer relationships, individual brands or suppliers are contributing to, or eroding, company profitability. And without a doubt, understanding the root causes of rogue expenses can be powerful intelligence for CFOs.

Understanding the impact of below-the-line expenses helps CFOs determine whether retailer relationships, individual brands or suppliers are contributing to, or eroding, company profitability.

Take, for instance, customer freight charges. Freight takes many forms for consumer goods companies. There's standard, garden-variety freight costs, negotiated allowances on freight, and rush freight charges that all bear mightily on the income statement. Left unallocated against the root cause of that charge, profit results from the sale won't accurately be reflected in customer, product, supplier and sales rep profitability calculations. As a result, CFOs will be left without a true measure of how cost outliers impact these profitability views.

Another problem for consumer goods companies centres on understanding the true net profitability of their biggest customers. That's because standard accounting practices that look at gross

margin calculations alone, don't take into account royalties, commissions, invoice deductions, special deals, duty, insurance and more.

But leading edge profitability tools do exist that can allocate cost outliers — the one-time exceptions and below the line costs — as easily as routine expenses. These tools simplify profitability calculations and give an accurate and detailed view of customer profitability in a fraction of the time. While some companies use complex spreadsheets to derive profitability views, spreadsheet analysis comes at a high cost. Hours of manual number crunching, the potential for human error, and the lag time between last week's numbers and this week's profitability results, can negatively impact a consumer goods company's ability to make good business decisions.

But best-in-class consumer goods companies are implementing best practice solutions that are integrated and industry specific. These software solutions feature cascading data that automatically populates into profitability matrices, so CFOs can quickly and accurately calculate true net profit with a few simple keystrokes.

Gross margin calculations aren't enough

There are many software solutions that can help calculate the gross margin of consumer goods. These tools generally deliver good enough results on landed costs by customer and by product. While calculating the landed cost of your brands is an important first step, calculations that only measure purchase price, duty, freight, brokerage and insurance fees don't go deep enough. Instead, best-in-class consumer goods companies are using integrated net margin tools that dive deeper into consumer goods profitability to calculate below-the-line consumer goods profitability – the real net profit results – by customer, product or supplier. Understanding the impact of commissions, royalties, cash discounts, freight adjustments, invoice deductions, sales salaries, special deals and more, can alter a company's view of their profitability landscape to reveal the land mines that are just below the surface endangering profit margins.

Integrated solutions improve performance

Enterprise solutions that are fully integrated and offer user-defined data fields and workflows, consistently deliver fast, accurate and reliable results. Integrated profitability solutions also allow you to drill into the detail level of all your cost drivers so you can see and understand the impact that individual costs are having on your business. Choosing an integrated profitability solution also eliminates the need for mounds of elaborate spreadsheets to organise and analyse data.

In short, an investment in an enterprise system that includes integrated profitability tools is good business strategy. Some of the benefits consumer goods companies derive from these automated profit tools include:

- Dependable analytics and insight into real net bottom line profitability
- Instantaneous, real time information
- Improved data sharing and visibility throughout the organisation
- Improved response times and decision making on processes, products and relationships that erode profit margins
- User friendly tools that make it easy to share reporting in multiple formats to meet stakeholder needs and requirements

Best-in-class consumer goods companies are using integrated net margin tools that dive deeper into consumer goods profitability to get to their real net profit results.

How accurate is your profit view?

Without full insight into profitability, it is impossible for CFOs to recognise and correct areas of the company that are underperforming. The ability to see and understand comparative results based on individual stores, chains, products and more, is a critical component to the analysis of a companies' true bottom line results. Knowing how individual suppliers, products and trading partners measure up against each other can provide companies with valuable intelligence that can be used to identify problems and opportunities, as well as set future strategy. Consumer goods CFOs need to understand the industry specific cost factors – such as invoice deductions, fuel surcharges and allowances – that are having a negative impact on their profitability. If your solution to the profitability question doesn't include these variables at a customer, product or supplier level, then you aren't seeing a complete view of your profitability picture.

Integrated systems deliver consistent and powerful results

Profitability software that is integrated with your enterprise system takes into account all your cost drivers from manufacturing processes through order delivery. An integrated system that captures and tracks all this data can serve as a powerful tool to better understand and correct recurring procedural errors that are costing your organisation money. Tracking your profit trends over time and comparing those results on measures such as write-offs, markdowns and defectives, can drive the necessary process improvement changes your consumer goods company needs to boost its bottom line.

User defined data fields deliver comprehensive results

Software tools that enable CFOs to easily customise views of profitability data make it easy for financial teams to see profitability the way they want to see it. User-defined fields that automatically populate above-the-line and below-the-line cost drivers can save hours, sometimes days of work, while providing an accurate profitability snapshot by month or period. Tools that incorporate manual adjustments are timesavers too. Incorporating month-end or period-based manual adjustments gives you an easy way to

edit and adjust cost drivers that occur less frequently. And the inclusion of unlimited fields for user-defined allowances ensures you'll always be able to scale your profitability scorecard to include new cost drivers important to your profit reporting.

Profitability tools that enable you to isolate and calculate cost drivers by customer, product and supplier, will give you the most intimate view of your business.

Profitability by customer, product and supplier

Calculating profitability is different when measuring it for customers, products or suppliers. For example, an invoice deduction from Walmart for failing to meet a labelling requirement impacts customer profitability, but not product or supplier profitability. With the right tools, the layers of products, costs, and partners

can be ordered in easy to understand matrices that provide the summary and detail answers you need to better understand your business. Profitability tools that enable you to isolate and calculate cost drivers by customer, product and supplier, will give you the most intimate view of your business. With the right profit tools, CFOs and other finance team members can analyse profitability categories on a broad or granular level for deeper business insight.

Comparative vs. trend views pack an extra punch

Rooting out profit wasters from the hundreds, if not thousands of activities, processes and partners your company engages with annually can be an overwhelming task. But profit tools that display comparative and trend views, as well as trend sensitivities, can help. Best-in-class companies use comparative views to contrast the bottom line profit results of each of their mass merchant retail partners, compare store-by-store margin returns, department-by-department results, and the performance of similar and dissimilar product categories and brands. Trend views take the analysis one step further by comparing results over user-defined time periods. Automated profit tools give you shorter cycle times to get to your real net bottom line, so you can make faster decisions. While actual, historical cost metrics paint a fuller picture that enables you to improve your decision making.

Graphical views provide a quick profit snapshot

Profit tools with fully configurable trend sensitivity features automatically highlight user-defined cost outliers. Understanding your true profitability is fast and simple with visual alert features that simplify profit analysis tasks. These tools automatically highlight positive and negative data trends that rise above or fall below user-defined thresholds, so you can see and respond to positive and negative data trends.

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More flexible options

Profitability solutions that feature a variety of flexible options offer the best value for your business. The ability to collect data on individual SKUs or profit groups enables you to view and analyse your business multi-dimensionally. Consumer goods companies often track costs, taxes and revenue in a variety of currencies and languages. For these companies, multi-lingual and multi-currency solutions are a must. Global companies should look for solutions that allow you to print profit reports in more than one language.

In summary

Squeezing the most profitability out of your consumer goods business requires organisational insight and discipline. The first step in understanding your enterprise's financial health is to gain visibility backward and forward throughout your supply chain. Enterprise software

that gives you full visibility into your business activities, no matter where they occur around the world, can give you the depth and detail you need to assess all your processes and business relationships.

Profit Tool Checklist

- ✓ Integrated into your enterprise system
- ✓ Industry specific for the consumer goods industry
- ✓ Includes manufacturing visibility into your own plants, as well as 3rd party production partners
- ✓ Profitability by customer, product, and supplier
- ✓ Integrates above-the-line and below-the-line cost drivers
- ✓ Includes open and resolved invoice deductions
- ✓ Comparative and trend views
- ✓ Trend sensitivity tracking
- ✓ User defined data fields
- ✓ User defined time fields: monthly and by accounting period
- ✓ Downstream data cascades captured in a user-definable profit matrix
- ✓ Graphical views to visually alert you to changes
- ✓ Unlimited manual adjustment data fields
- ✓ Multi-lingual and multi-currency for global business
- ✓ Simple setup to get started with little effort
- ✓ Advanced setup to tailor the profitability views to your unique needs

For more information about profitability solutions for consumer goods companies, contact: emea@apprise.com



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