



## Case Study: Managing Trade Spends for FMCG in UAE

As a Key Account Manager (KAM) for a global FMCG company in the UAE, you manage a critical relationship with GulfMart, a leading international retailer. You only got this role last year after many conversations with your boss. When he told you that they had decided to give you the role, he said, “now you have to prove yourself by delivering results next year”.

Your year started well but in Q2 & Q3, your competitors upped their game and started running aggressive promotions due to which your sales run rate took a significant hit. To counter them you ended up exhausting all of our weeks on deal allowance for the year by the end of Q3.

Your base sales seem to have now settled down at 30,000 units per week and it looks like you will miss your sales & gross profit targets for the year. The factories had been working to reduce the Cost of Goods Sold but it is now expected to remain at AED 4 per unit. Your boss and his boss won't be happy.

However, the buyer at GulfMart has contacted you and outlined several promotional plans for the upcoming quarter (12 week long).

GulfMart's promotional strategy includes two major campaigns for one of your flagship products, “Kalin Soap,” which are retailed at AED 20 per unit and invoiced at AED 10 per unit. The retailer requires a Price Down Promotion offering a 25% discount to shoppers in one promotional cycle and a Buy One Get One Free (BOGOF) with an expected redemption rate of 40% in another one. Each cycle is 4 weeks long.

Additionally, GulfMart has offered to provide secondary placement for Kalin Soap in the form of an endcap display for the BOGOF promotion. This comes with a fixed gate fee of AED 80,000.

You've projected the sales for the Price Down Promotion and Multibuy Promotion as 40,000 units and 65,000 units, respectively. If the actual volumes for these promos turn out to be close to forecast, your hunch says it will provide you with some face saving, but you still need to do the math.

Additionally, you are thinking it might be a good idea to offer an over-rider incentive where GulfMart will qualify for a 5% bonus on total invoice sales value if sales for the quarter exceed 550,000 units. You think an overrider will encourage them to give you secondary space with deep distribution even when not on promotion which can bolster your base sales by 25%.



## Quiz

**Question 1:** What is the retailer's selling price during the Price Down Promotion?

**Question 2:** What is the weighted average instore price expected for the BOGOF promo assuming 40% redemption rate?

**Question 3:** What is the expected total RSV for the 12 weeks of Q4 if you opt to go with the retailer's proposal? Pls ignore overrider impact.

**Question 4:** What is the retro payment per unit for the Price Down Promotion?

**Question 5:** What is the expected total trade spend (retro+gate fee) for the Multibuy Promotion (excl overrider impact)?

**Question 6:** What is the expected total promo trade spend for the quarter excluding overrider?

**Question 7:** What is the absolute cash Gross Profit of Base business (excl overrider impact)?

**Question 8:** What is the total expected gross margin % for the quarter excluding impact of over rider?

**Question 9:** Assuming a list price of 25 AED per unit, what is the G2N% of the price down promotion?

**Question 10:** Is offering an over rider at 550,000 units a good idea from a gross profit perspective?

- A) Yes, and the payment is AED 10,000.
- B) No, as sales are below the target.
- C) Yes, and the payment is AED 12,000.



## Answer Key and Explanations

1. **AED 15:** Retailer selling price = AED 20 - (25% of AED 10) = AED 15.
2. **AED 16:** Full price = AED 20, % Discount for those going for the offer = 50%, % of shoppers going for the offer = 40%, Discounted Price per unit= AED 10 (50% x AED20), Weighted Avg. (blended) Price = 40% x AED 10 + 60% x AED 20 = AED 16
3. **8.64 million AED**

	Price down		BOGOF	Total
	Base	Promo	Promo	
# of weeks	4	4	4	12
Instore Price	20	15	16	
Total Units Sold	120,000	160,000	240,000	520,000
RSV (Instore Price x Units sold)	2,400,000	2,400,000	3,840,000	8,640,000

4. **AED 2.50:** Invoice Price AED 10 x 25% instore discount = £2.5
5. **AED 560,000:**
  - BOGOF promotion retro = 50% discount x AED 10 Invoice Price = AED 5 per unit.  
Redemption rate = 40%.  
BOGOF Promotion Retro = AED 5 promo retro x 40% Redemption rate x 240,000 total units sold = AED 480,000  
Gate Fee = AED 80,000  
Total Promo Retro = AED 560,000
6. **AED 960,000:**
  - BOGOF promotion retro = 50% discount x AED 10 Invoice Price = AED 5 per unit.  
Redemption rate = 40%.  
BOGOF Promotion Retro = AED 5 promo retro x 40% Redemption rate x 240,000 total units sold = AED 480,000  
BOGOF Gate Fee = AED 80,000  
  
Price Down promo Retro: £2.5 AED retro per unit x 160,000 total units sold during promotion = AED 400,000  
  
Total Spend = 400,000+480,000+80,000= AED 960,000
7. **AED 720,000**



	Base
# of weeks	4
Instore Price	20
Total Units Sold	120,000
Gross Sales ( <i>List Price AED 25 x Units sold</i> )	3,000,000
RSV ( <i>Instore Price x Units sold</i> )	2,400,000
Invoice Sales ( <i>Unit invoice price x Total Units sold</i> )	1,200,000
Total retros	-
Gate fee	-
Net Sales	1,200,000
COGS	480,000
Gross Profit	720,000

8. Total expected **GM% 51%**

	Base	Price down Promo	BOGOF Promo	Total
# of weeks	4	4	4	12
Instore Price	20	15	16	
Total Units Sold	120,000	160,000	240,000	520,000
Gross Sales ( <i>List Price AED 25 x Units sold</i> )	3,000,000	4,000,000	6,000,000	13,000,000
RSV ( <i>Instore Price x Units sold</i> )	2,400,000	2,400,000	3,840,000	8,640,000
Invoice Sales ( <i>Unit invoice price x Total Units sold</i> )	1,200,000	1,600,000	2,400,000	5,200,000
Total retros	-	400,000	480,000	880,000
Gate fee	-		80,000	80,000
Net Sales	1,200,000	1,200,000	1,840,000	4,240,000
COGS	480,000	640,000	960,000	2,080,000
Gross Profit	720,000	560,000	880,000	2,160,000
GM%	60%	47%	48%	51%

9. G2N% of the price down promotion= 70%



	Price down Promo
# of weeks	4
Instore Price	15
Total Units Sold	160,000
Gross Sales ( <i>List Price AED 25 x Units sold</i> )	4,000,000
RSV ( <i>Instore Price x Units sold</i> )	2,400,000
Invoice Sales ( <i>Unit invoice price x Total Units sold</i> )	1,600,000
Total retros	400,000
Gate fee	
Net Sales	1,200,000
COGS	640,000
Gross Profit	560,000
GM%	47%
G2N%	70%

10. No. Offering an overrider of 5% of invoice sales at 550,000 units is not a good idea. The anticipated uplift from any incremental support is expected to be on the base business. If any full price secondary space bolsters base business by 25%, the base business would increase to 150,000 units. This would make the total profit for Q3 equivalent to AED 2.065 million which is less than the profit of AED 2.16 million without any overrider agreement.

#### Gross Profit Without Over rider



	Price down		BOGOF	Total
	Base	Promo	Promo	
# of weeks	4	4	4	12
Instore Price	20	15	16	
Total Units Sold	120,000	160,000	240,000	520,000
Gross Sales ( <i>List Price AED 25 x Units sold</i> )	3,000,000	4,000,000	6,000,000	13,000,000
RSV ( <i>Instore Price x Units sold</i> )	2,400,000	2,400,000	3,840,000	8,640,000
Invoice Sales ( <i>Unit invoice price x Total Units sold</i> )	1,200,000	1,600,000	2,400,000	5,200,000
Total retros	-	400,000	480,000	880,000
Gate fee	-	-	80,000	80,000
Net Sales	1,200,000	1,200,000	1,840,000	4,240,000
COGS	480,000	640,000	960,000	2,080,000
Gross Profit	720,000	560,000	880,000	2,160,000
GM%	60%	47%	48%	51%
G2N%	60%	70%	69%	67%

### Gross Profit WITH overrider agreement

	Price down		BOGOF	Total
	Base	Promo	Promo	
# of weeks	4	4	4	12
Instore Price	20	15	16	
Total Units Sold	150,000	160,000	240,000	550,000
Gross Sales ( <i>List Price AED 25 x Units sold</i> )	3,750,000	4,000,000	6,000,000	13,750,000
RSV ( <i>Instore Price x Units sold</i> )	3,000,000	2,400,000	3,840,000	9,240,000
Invoice Sales ( <i>Unit invoice price x Total Units sold</i> )	1,500,000	1,600,000	2,400,000	5,500,000
Total retros	-	400,000	480,000	880,000
Gate fee	-	-	80,000	80,000
Overrider	89,286	71,429	114,286	275,000
Net Sales	1,410,714	1,128,571	1,725,714	4,265,000
COGS	600,000	640,000	960,000	2,200,000
Gross Profit	810,714	488,571	765,714	2,065,000
GM%	57%	43%	44%	48%
G2N%	62%	72%	71%	69%