Maximising Customer and Sales Force ROI in a Consumer Goods Environment

A Paper written by Meridian ISE

Summary

- It is essential that suppliers maximise the return they achieve from their customer and sales force investments. This requires an ability to measure the impact of these investments.

- Sales Drivers can be categorised as Distribution, Availability, Visibility and Promotion. Suppliers need to have a clear understanding of the relative importance of each sales driver.

- Retailer compliance needs to be treated as a store-specific issue. Sales activity should be targeted at non-compliant stores.

- In-store sales and merchandising activity which is focused on the wrong sales drivers frequently has little or no impact on sales volumes.

- Whilst the issues themselves are easily understood, gaining insight does demand an ability to manage large volumes of data – including store level EPoS data such as that available via Asda Retail Link, Tesco TIE, Sainsbury's SID, Waitrose Connect and Morrisons / Safeway SIS (or its replacement).

- Meridian's experience suggests that managing the fine detail of the customer relationship can yield significant benefit, may be as much as a 5% increase in sales revenue.

This paper examines the importance to Consumer Goods companies of understanding and measuring the impact of sales driver investment in their major accounts; and how the ROI of the sales force itself should be part of this measurement process.

There is growing evidence that trade spending is on the increase, as retailers consolidate & are able to demand greater support from suppliers, whilst at the same time consumer media spend continues to fragment as options broaden.

For many companies this means that more investment is now made in trade spending than in consumer communication, making the management and measurement of this investment an ever more critical issue.

With finite resources to allocate, it is essential that manufacturers have a clear understanding of the ***return*** they achieve from their customer and sales force investments, so that strategic choices can be made between different channels, customers and forms of investment.

This understanding is dependant not only on the availability of reliable measurement data (such as that available via Asda Retail Link, Tesco TIE, Saisbury's SID and Waitrose Connect), but also on an acceptance that the sales and/or merchandising force, whilst having its usual roles of store-level execution and data collection, *is also an investment that should itself be subject to the same rigorous ROI analysis* as other sales investments.

The 3 Elements of Trade Investment Management

In our view, analysis of the return on trade investments should be conducted across 3 broad areas:

1. <u>Sales Drivers</u> – does the organisation have a precise understanding at the individual customer level of the impact of each of its sales driving initiatives under the headings of **DAVP – Distribution, Availability, Visibility & Promotion**? Does this knowledge extend to an appreciation of differences at brand and SKU level by store type to incorporate insight about different shopper profiles and purchase/occasion drivers?

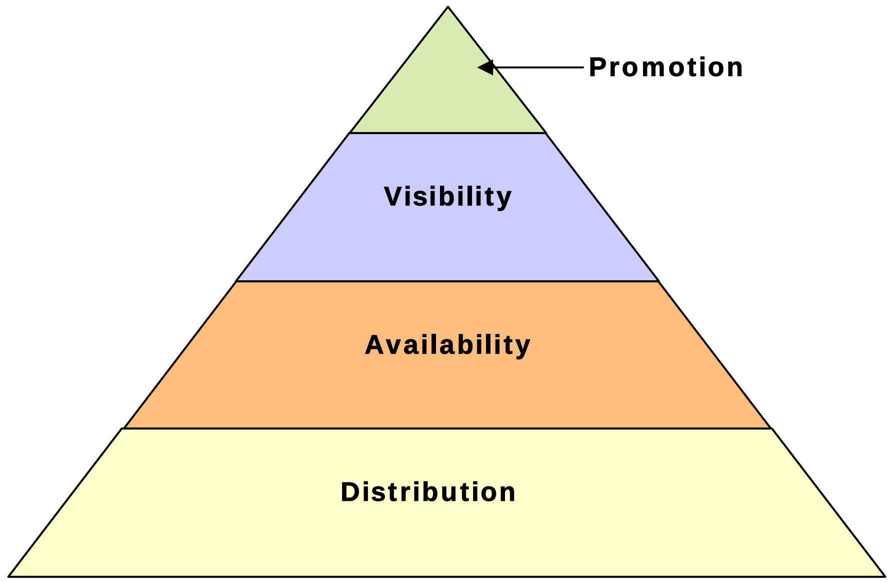
2. <u>Retailer compliance</u> – is compliance to the trading agreement measured in all the critical sales driving areas; is the impact of non compliance calculated; and do trading terms encourage / reward high compliance levels? Is there an understanding of what drives non-compliance? Are some stores “consistent offenders” & how does that affect contact strategy? Does the organisation ‘factor in’ the different impact of expected non compliance when planning?

3. <u>Sales Effectiveness</u> – is the sales team directed towards those channels, customers & outlets which offer the **greatest incremental potential**, & can their **impact be measured** by comparing sales levels before & after their interventions? How does the organisation measure the ROI of the sales force itself?

We will now focus on each of these areas & examine why improving the **understanding and measurement** of each is necessary in order to maximise sales force & customer ROI.

1. Sales Drivers

At the customer level, Meridian has identified 4 main **categories of Sales Drivers** – elements which will affect the rate of sale of a product – under the headings of DAVP.



Distribution

The key DAVP sales drivers can be seen as a hierarchy, with D for Distribution at the base of the structure. Without Distribution the product is simply not on sale in the retailer's outlets and this is therefore the primary driver of sales.

Availability

Once an optimum assortment of products has been agreed, then the supplier's responsibility is to work with the retailer to assure continuous A for Availability of the product at the point of purchase, primarily by optimising both organisations' logistical & operational functions.

Visibility

Once these fundamentals have been addressed the V for Visibility of the product can be considered. What is the optimum position in the fixture for the product? How many facings of each SKU (Stock Keeping Unit) should there be? Where else in the store should product be displayed? (Secondary sites).

Promotion

Finally the question of P for Promoting the product can be reviewed. If it is in regular distribution, continuously available and easily seen by the consumer, then it is likely that a promotional event will produce an increase in the normal rate of sale. Promotions are the most visible evidence of trade investment.

The degree of promotional investment can vary widely – Beer Wines and Spirits is particularly promotionally active & a significant proportion of trade investment will be allocated to this mechanic. However, in other categories, soft drinks or ice cream for example, investments made in permanent Point of Purchase materials deployed outside the remit of a promotional event can far exceed the investment in the promotional programme. Merchandising or display units, branded chillers and freezers, dispensing equipment and temporary display units can demand significant investment in some categories

The key point for suppliers is that they must be able to measure accurately not only the **relevant impact of each sales driver** within a DAVP framework, but also the return on **investment required to implement and maintain** these sales drivers at store level through the deployment of sales & merchandising resources.

Calculating the impact of sales drivers

Most manufacturers have focused on calculating the sales increase derived from Promotions above all other sales driver analysis. Many will have a 'library' of expected impacts for a range of mechanics planning purposes - regardless of how inaccurate the projections might be!

However, the degree of focus manufacturers typically give to understanding Promotional effects contrasts starkly with the attention given to measuring other sales drivers. Yet without a **full understanding of the likely impact of ALL sales drivers** it will not be possible to make fully-informed decisions regarding trade marketing spend.

Those decisions can only be taken if the ROI of all alternative investments is known – and as we will see below, this understanding needs to encompass not only the maximum projected uplift, but also the **impact of non-compliance at store level**. It also includes the capability to measure the return available from **sales and/or merchandising calls** at store level by analysing (a) "ability to fix", (b) the impact (if any) this fix has on sales volumes and (c) sales force costs.

Building a knowledge base of sales driver insights demands an appreciation of the complexity of the retail environment, and requires a capacity to deal with **huge amounts of data**, but is necessary if truly informed decisions are to be taken. Investment decisions, particularly those relating to field deployment need to consider not only "what" (i.e. which sales drivers) but also "where" (which stores).

Consumer goods companies need to become adept at interpreting the **EPoS** (Electronic Point of Sale) data which can show sales by week (or even day) by store and by individual SKU. This data is frequently available through retailer intranets such as Asda Retailer Link, Tesco TIE, Sainsbury's SID, Waitrose Connect and Boots TONIC. These data can then be combined with **observational data** gained from sales force visits to calculate the impact of activity at the point of sale. (NB: The cost of EPoS data should be considered a trade investment in its own right in which a return should be expected).

Meridian's unique **Customer Investment Maximiser** (CIM) modelling tool has the capability to blend both hard and soft data from a variety of sources – including Retail Link, TIE, SID and Connect and TONIC - to enable customer investments to be directed to those sales drivers and stores which will **deliver the maximum ROI** for the brand owner.

The clear objective for companies is to have a data informed and therefore objective view of each of the DAVP sales driving options. This enables a 'league table' to be constructed for each brand and retailer, so that any gaps can be valued and prioritised in terms of a 'fix it' schedule.

2. Retailer Compliance

It is well documented that retailers have continuing problems with availability, promotional compliance & planogram execution at point of purchase. The relevance of these issues varies between retailers and many industry observers even acknowledge that striving for 100% availability in some categories is both costly and unproductive.

There are many reasons why central agreements are not executed as planned at store level; some are caused by the supplier failing to deliver the agreed forecast on time and in full, others by failings in the operational effectiveness of the retailer, or by local inefficiencies. From the point of view of the supplier the extent of these imperfections *must* be measured if ROI is to be optimised.

Any retailer non compliance to the contractual agreement represents a sub optimal deployment of customer marketing funds, so the supplier will be keenly interested in measuring the performance of the retailer in all the DAVP sales drivers.

Availability and Distribution Compliance.

Assuming that the supplier is achieving high (98%+) OTIF (on Time, In Full) deliveries, then any lack of **availability** is usually assumed to be due to retailer internal supply chain inefficiencies at any point from the Distribution Centre, via the store stock room to point of sale. In some categories the retailers' availability targets may even be lower than that of the suppliers'.

Availability compliance is frequently cited as justification for outlet calls by sales or merchandising teams. However, Meridian has found that availability "fixes" tend to have little or no effect on sales volumes because the store would have 'self-fixed' anyway within a 24 or 48 hour period.

However, where non-availability is a result of **booked stock errors,** intervention *will* be justified because the compliance issue becomes one not of availability but of **distribution** and is less likely to be fixed by the store. This can escalate quickly. The stock control system notices that the product is not being sold despite the apparent presence of stock in store. At a certain point it will decide to **de-list** that product, the SEL (Shelf Edge Label) which prompts staff to reserve space on shelf will be removed, and the product will not be listed or sold in that store until the problem is corrected.

Central or aggregated data which describes availability in percentage terms over a period of time fails to identify those stores which have the worst availability performance. Nor is aggregated data able to identify whether the compliance issue is one of availability or distribution (as this is store specific) so it is **difficult for suppliers to diagnose** the reason for the issue and agree a specific course of corrective action.

To manage this (and other critical sales driver non compliance) most effectively, the responsible brand owner has no choice but to manage from the 'bottom up', by purchasing **store level EPoS data** (either directly via Retail Link, TIE, SID, Connect etc or through a third party) and measuring **Distribution** and **Availability** of its agreed assortment.

Promotional Compliance

Suppliers who measure in this way have an opportunity to link at least part of their **trading terms** to retailer compliance. For example, if full payment of the promotional gate fee becomes contingent on full and timely compliance with the promotion in store, then the supplier could (in theory) withhold part of the gate fee.

More constructively (and realistically) measuring compliance at store level enables **targeted remedial action** to be by the field team. Like Availability and Distribution, promotional compliance can also be tracked using the retailer's **EPoS data**. Retailer extranet access such as Retail Link, TIE, and SID allows access to relatively "fresh" store level sales data. Those stores which are slow to implement the promotion should stand out as having a lower rate of sale. However, as there is a time lag before the data becomes accessible by which time it will be too late to be acted upon by the supplier, **Meridian's CIM tool** enables suppliers to predict which stores are most likely to be non-compliant in the early stages of a promotion.

Store calls can then be targeted at these stores with a **history of non compliance** and as a result, without resorting to "blanket" coverage, compliance will improve and the full impact of the promotion is more likely to be realised.

3. Sales Effectiveness – the ROI of the Sales Organisation

As stated above, one reason for making visits to grocery multiple outlets is to **collect data**. These data can then be used to manage the customer better from a head office perspective, often giving the retailer information and insight which their own systems may be unable to provide.

In combination with an appropriate set of trading terms and continued measurement of the improvement, this **'auditing' role** of the sales team may be sufficient to generate an improvement and so provide an **acceptable ROI** on that spend.

However, in order to **fully maximise the impact of the field team**, most suppliers will seek to ***resolve*** some of the sales driving issues they encounter at the store level.

Indeed, many issues may indeed appear to be resolved by a field sales intervention at the store level – **activity data** will certainly suggest that this is the case. Yet suppliers who do not **fully measure sales force impact** on sales drivers will continue to experience **disappointingly low levels of ROI** on their sales efforts.

Indeed, despite the fact that many major players make significant investments in outlet calling, so far **only a handful of leading edge companies** have developed a reliable way of **calculating & measuring sales force ROI** on an ongoing basis.

Resolving DAVP issues at store level can potentially deliver a 'big win', but in an environment where **only a minority of stores need fixing**, manufacturers need to identify **where, when & how** to apply their finite resources to assure an acceptable ROI on field sales activities.

Store level EPoS data – available via major multiples extranets such as Retail Link, TIE, and SID - is a prerequisite to understanding this ROI, but in our experience the majority of companies in the UK do not routinely obtain & utilise it. Even those that do subscribe to services such as Asda Retail Link fail to maximize the value from the use of the data - and therefore the return on the investment in the data.

Why might recorded sales activity often have no impact on Volume?

Let us again take the example of availability, which affects every supplier. A sales operative may be sent into store to gather important **observational data.** He or she will check the fixture in store, then the stock area in the rear of the store. Many suppliers then instruct their sales people to **replenish the fixture** with stock from the stock area as a routine part of the call. This may take 40-50% of the in call time. A "**fix**" is recorded for the call.

Two questions need to be asked;

(a) is this activity the **best use of the sales person's time**, and
(b) does this activity have **any impact on volume**?

The sales person has finite time in store, and a limited number of actions which can be performed, so it is essential that he/she is guided by management to focus on **fixing the biggest sales driving** gaps. If the various possible "fixes" have never been identified, quantified or regularly updated (the in store environment is one of continuous change) this guidance will be missing. Well intentioned endeavours may not result in volume uplift.

In replenishing the fixture the sales person is performing a task that the store would have done anyway. The question is when would this have occurred? If the sales person calls on (say) a Monday, and the store would have self fixed within 8 hours (or a full shift), what is the **maximum volume impact** that the sales person's action could have?

However, if there is a booked stock error on a specific SKU, or a missing SEL or a product has been de-listed, then resolving *these* issues is much more likely to produce a bigger win.

Field Sales Effectiveness & ROI measurement

For those sales directors considering the ROI of their sales team, the following questions may therefore be worthy of consideration:

- Does regular calling lead to long term **behavioural change** at store level? Can we prove it?
- Do we have to call on **consistently compliant** stores ‘just in case’ they slip up? How many consistently perfect stores does each retailer have?
- What **competencies** are needed to influence key sales drivers? Do our sales / merchandising teams possess them?
- Impact of specific in store actions – which **sales drivers** are most important?
- **Durability** of in store corrective action taken – how long does it last? When should we call again?
- Likelihood of the store **fixing it themselves** – after the visit when (if ever) would they have fixed it?

To learn more about how Meridian can help you maximise the return on your sales force investments;

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