

## Increasing Return on Investment at Retail

### Situation

A large CPG manufacturer had recently benchmarked its Direct Retail Sales force and found its costs (as a % of sales) were four times the industry average. The company used a hybrid resource pool consisting primarily of direct employees supplemented by 3<sup>rd</sup> party / broker resources. The Direct Retail Sales force had two core responsibilities: 1) selling new products / programs as retailer degree of influence allowed; and 2) standard retail continuity tasks (for example, resets, check distribution & pricing, re-face product, improve position, place point of sale, or build displays). The “dual” responsibility approach resulted in nearly all direct retail reps performing both a high value role (selling) and a lower value role (in store maintenance). The supplemental 3<sup>rd</sup> party resources were used primarily for lower value reset work.

While there was a strong belief that measurable differences existed between direct associate performance and 3<sup>rd</sup> party effort, there were questions on whether the improved results were worth the higher costs. Senior management rigorously held to the longtime position that the company’s direct retail force added value and provided a competitive advantage. But, there was little concrete evidence supporting this position and far from enough evidence to justify the higher costs that were uncovered from the benchmark comparisons.

Despite spending four times the benchmark average, the total number of stores covered under the manufacturer’s coverage plan was significantly less than their competitors. Management faced a quandary... fewer stores covered in the marketplace, but better store-by-store results. Management struggled to understand if covering more stores and reducing cost were compatible goals. To address these challenges, management sought to:

1. Analyze and dimensionalize the difference between results generated by direct employees and a broker organization
2. Determine how to reach more retail outlets / improve coverage breadth
3. Reduce retail COS, while achieving revenue growth targets
4. Determine the optimum organization structure

### Solution

DHC led the client in creating a new organization structure with a special emphasis on developing and evaluating alternatives. DHC developed a detailed model that simultaneously estimated retail costs and retail influenced revenue dollars (sales impact). The model’s assumptions were based on actual retail experiences and management experience (key inputs included, hours in-store, retail resource employed, in-store calls completed, average in-stock conditions, probability of sales success, value of completed sales activity and displays completed). Sales impact estimates included each of the company’s important channels (Grocery, C-store, Wal-Mart, Drug, High Opportunity Independents and Club). The model’s rigor, flexibility and fact-based assumptions established credibility with both the finance department (measuring cost estimates) and with sales management (measuring retail influenced revenue dollars).

Using the model, DHC was able to perform intricate “what-if” analysis around a number of elements (by business channel), including:

- Which resource performed retail activities (direct associates, broker dedicated team, broker syndicated team)
- Which activities were performed (sell new distribution, reduce out-of-stocks, sell secondary display opportunities, increase planogram compliance)
- Number of stores covered
- Retail call frequency
- Average time on a sales call
- Average “non-selling” time (administration, drive time)

To address the challenge of finding a new organizational structure, we compared various coverage plans by evaluating costs, revenue differences and the balance of direct vs. 3rd party resources.

## Results

For the first time, the client quantified the value for the return on their investment in retail activities. Using this analysis the project team developed recommendations and implementation plans for Retail Sales that:

- Increased revenue by 2%
- Reduced on-going retail cost by 8%
- Generated a 2.5 point improvement in profit as a percent of sales

In the new structure, resources were allocated based on skill set, sales impact and cost. Direct employees (at a higher cost) were focused on key selling opportunities while lower cost 3<sup>rd</sup> party resources were used for lower value tasks (continuity retail store coverage and resets). The client found that they needed fewer high cost / high value resources and were able to shift this cost savings to significantly increasing the store coverage provided by lower cost 3<sup>rd</sup> party resources. This significant increase in retail store coverage had a direct result on top line sales (more stores covered drove sales volume). Basically, the company was able to reduce overall costs, but cover more stores and drive revenue.

Based on the project recommendation and supporting explanations, the perception of the Retail Sales force went from a “black box mystery” that most people thought of as a good idea, to a valued contributor, capable of showing its value. Senior management now had flexibility in using the Retail Sales force as a strategic tool, because the operational managers possessed:

- A clear vision surrounding which retail resources to use for various retail activities
- Breakeven performance levels that reflect the cost differences and expected revenue differences between retail resource options
- A clear understanding of the difference (both cost and results) between direct and 3<sup>rd</sup> party resources
- A quantified “size of the prize” for optimized retail coverage
- A “what-if” tool to provide financial metrics about
  - Various retail coverage choices
  - The value for improving the precision of management’s assumptions

What started with concerns that retail costs were four times the average and therefore out-of-control, ended with an in-control operation, capable of quantifying its actions, meeting competitive coverage while reducing costs and driving top line sales results. Truly a win – win.