

Optimal Sales and Marketing in an FMCG Setting

By

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The sales and marketing functions of any commercial entity create, enhance and sustain revenue. Demand side management is the responsibility of the sales and marketing departments. The former deals with customers (retailers), the latter looks after the relationship with consumers (end users). Over the years, separate analytical techniques have been developed to optimise sales and marketing effectiveness, however these techniques have resided in silos. Given that ultimately the source of the individual sales and marketing budgets is one central (finance) budget, a holistic analytical framework that encompasses both disciplines is needed. This article brings together the hitherto distinct disciplines of sales and marketing ROI measurement and addresses how FMCG brands can maximise sales and marketing effectiveness.

We begin by presenting a conceptual framework for understanding the sales and marketing functions and their interrelations.

A somewhat simplified overview of the key challenge facing FMCG manufacturers when it comes to sales and marketing budget allocation is to find the optimal level of investment across three dimensions:

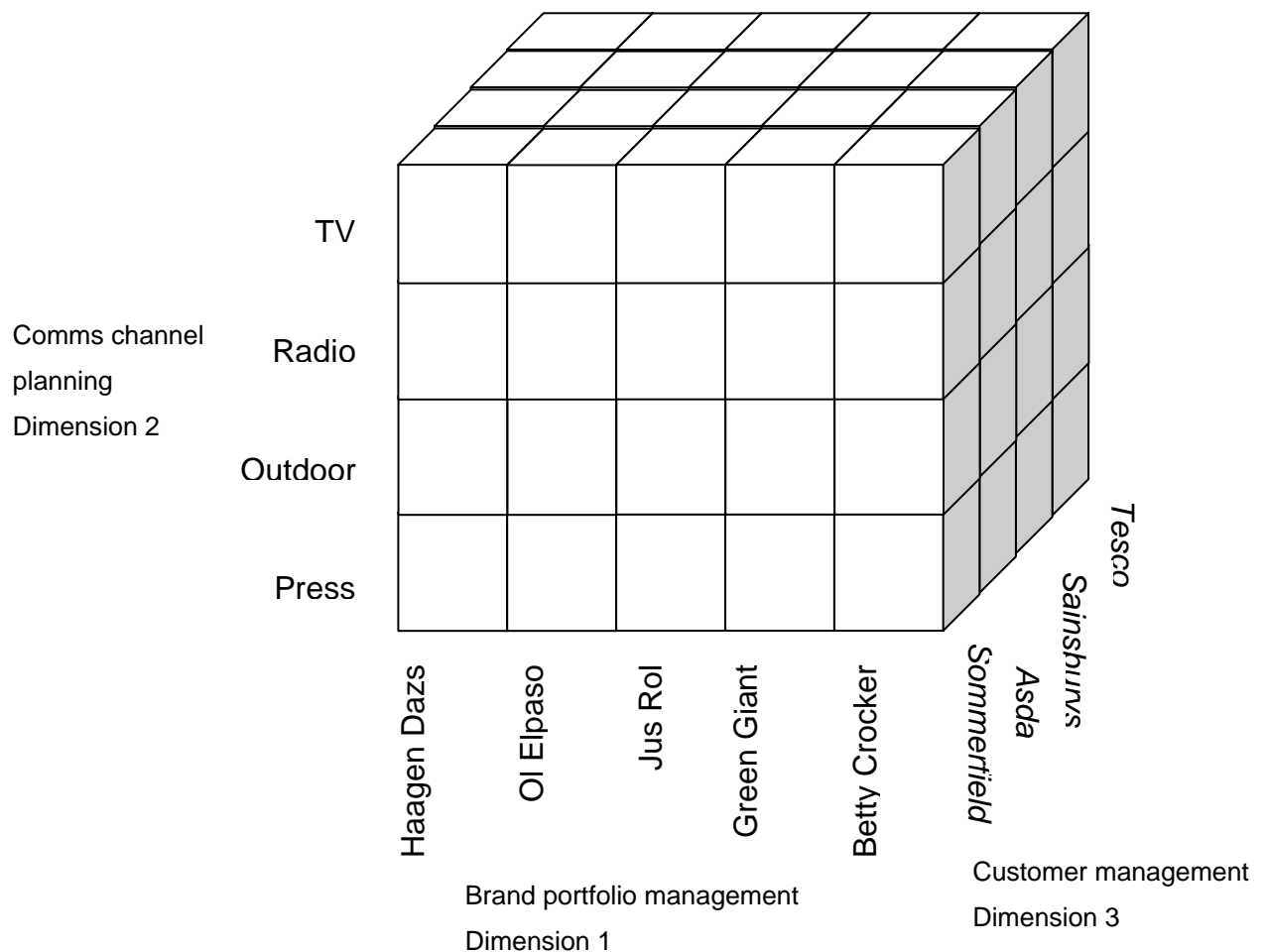
Dimension 1: Brands and products – how much to spend on specific brands and products within a portfolio.

Dimension 2: Communication channels – given that there is an ever-increasing number of channels available (TV, press, direct mail, radio, etc), finding the right combination of channels is increasingly difficult

Dimension 3: Customer Segments (retailers) – developing profitable relationships with retailers and offering them the right incentives is fundamental. However, there are usually several retail customers and knowing the optimum investment to make on each is a crucial aspect of resource management.

The task at hand can be conceptualized using the budget allocation cube (Box 1). We have illustrated the case with a well known FMCG player.

Budget Allocation Cube for General Mills



We can think of the sales and marketing ‘macro’ cube as an aggregation of ‘micro’ cubes. The challenge for management is to apportion the right level of resource into each micro cube such that overall value is maximised within the macro cube.

In the remainder of this paper we will explore how investment allocation decisions can be made across these dimensions. We will begin with a discussion of dimension 1.

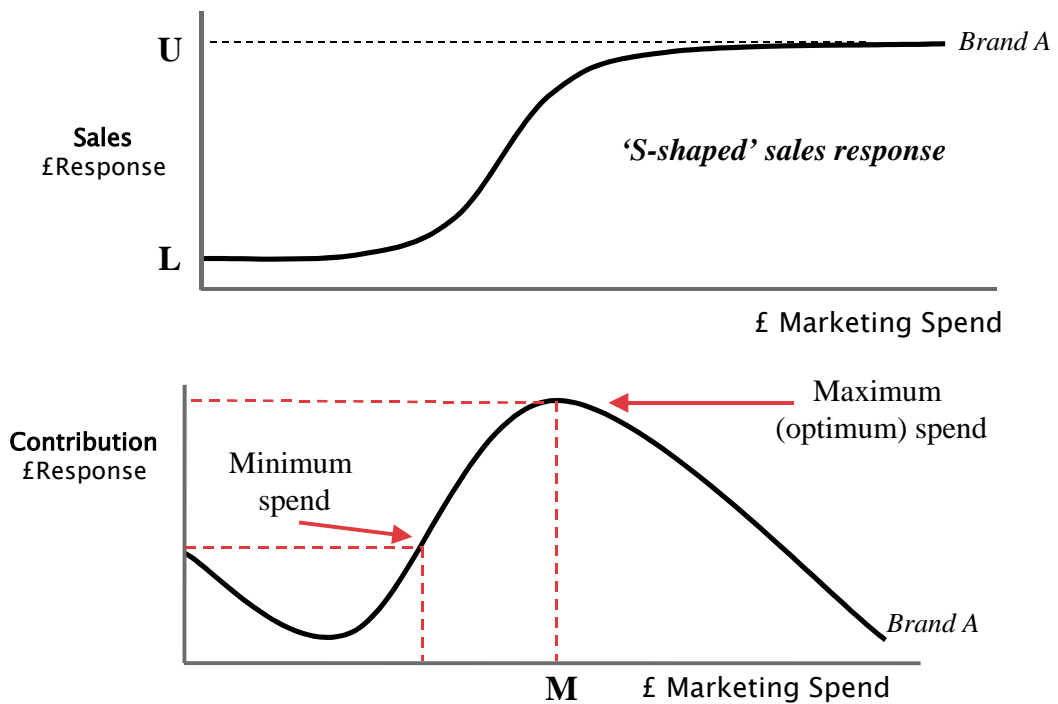
First, the relationship between marketing investment and a brand's sales must be identified (top half Fig 2). Typically, when graphed, the relationship is S-shaped and is estimated using analytical methods such as non-linear econometrics.

Once an accurate S-shape sales response curve has been constructed the contribution response curve can be derived. Contribution for brand A is defined as:

$$\text{Contribution} = \text{Sales} \times \text{Margin} - \text{Marketing Expenditure}$$

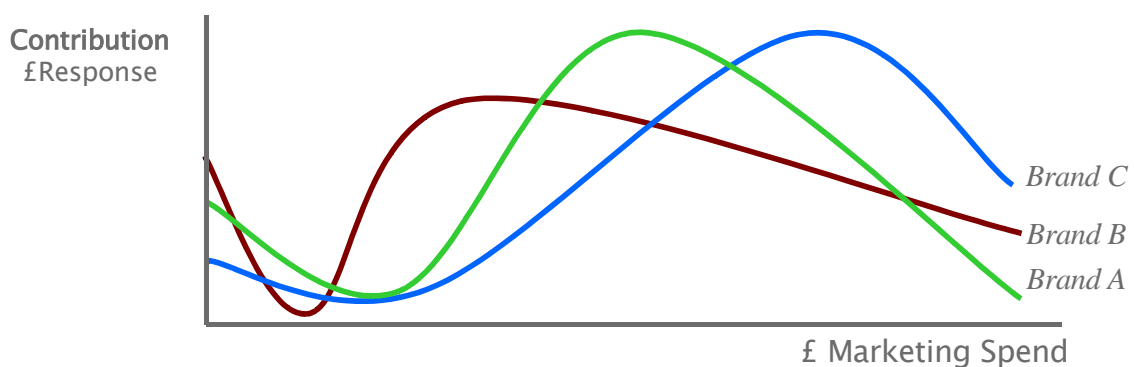
Contribution is what most marketers are attempting to maximise. Given an S-shape sales response, and the relationship between sales, marketing expenditure and contribution formalised in equation 1, the contribution response curve can be derived (lower half Fig 2).

Fig2: Marketing Investment Response Functions (MIRFS)



Manufacturers usually have several brands in their portfolios, each having a unique contribution response curve. Fig. 3 shows a family of contribution curves for a hypothetical three-brand portfolio.

Fig 3: Contribution curves for 3 brands



Marketing strategists need to find the unique combination of expenditure behind each contribution curve that maximises total portfolio contribution. This is achieved by employing a search algorithm, which can be thought of as

exploring different allocations of the budget across the brand portfolio, in order to find the combination that returns the largest portfolio contribution (the global maximum).

The above framework applies in principle to both the first and second dimensions.

We now turn to the third dimension – customer / retailer analysis. Trade spending is increasing as retailers consolidate and demand greater support from suppliers while consumer media spend fragments as options broaden. Manufacturers must have a clear understanding of the **return** they achieve from customer investments

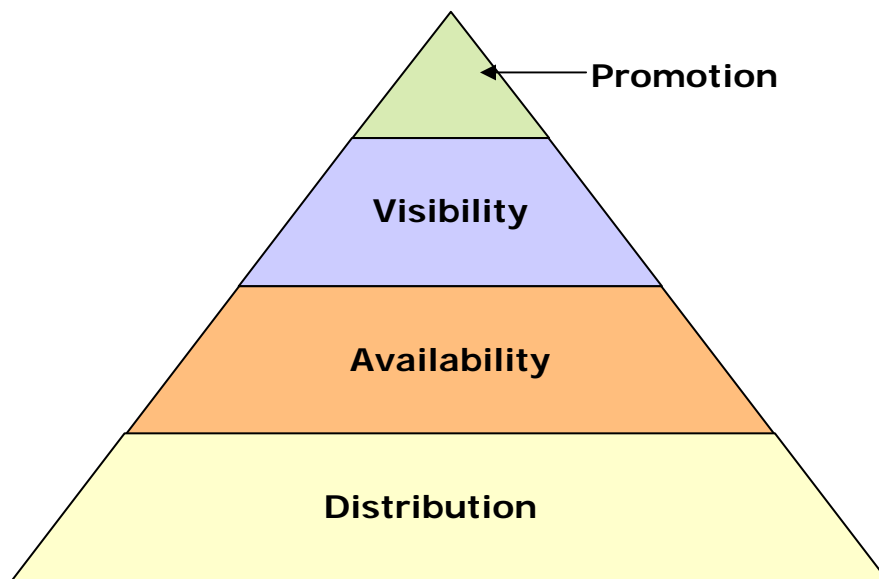
This analysis should be conducted across 3 areas:

- 1. Sales Drivers** – does the organisation understand the impact of its DAVP sales driving initiatives – Distribution, Availability, Visibility and Promotions?
- 2. Retailer compliance** – is DAVP compliance to the trading agreement measured, the impact of non compliance calculated and is the retailer encouraged/penalised to improve performance?
- 3. Sales Effectiveness** – is the sales team directed towards the channels, customers and outlets offering the greatest potential, and can their impact be measured?

Let's review each of these areas and examine how investment levels can be optimised and ROI improved.

Sales Drivers

The role of customer management is to ensure that products are available to the consumer in appropriate trade channels. We have identified 4 main categories of Sales Drivers – elements which affect the rate of sale of a product:



Distribution

DAVP is a pyramid, with D for Distribution at the base. Suppliers agree an assortment with retailers, varying at individual product level according to the store type or size. Without Distribution the product is simply not on sale and it is therefore the primary sales driver.

Availability

The supplier works with the retailer to assure continuous availability of the product, by optimising both organisations' logistics and operations functions.

Visibility

Manufacturers and retailers typically work together to produce a planogram or map of the fixture showing how the product will be displayed, and how this varies by outlet type and size.

Promotion

If a product is in regular distribution, continuously available and easily seen by the consumer, it is likely that a promotional event will produce a sales increase.

Calculating the impact of sales drivers

Deciding which sales drivers to invest in depends on knowing the ROI of alternative investments. Suppliers can become adept at interpreting the Electronic Point of Sale data which show sales split by day, outlet and individual sku. These data can be combined with observational data gained

from sales force visits to estimate the impact of changes at the point of sale, from which extrapolations can be made.

However, the only certain way to predict the payback is to run a test before rolling out an event. This enables a DAVP 'league table' to be constructed for each brand and retailer, so that gaps can be valued and prioritised.

Compliance and Trading terms

All retailers have continuing problems with availability, promotional compliance and even simple planogram execution. The size of the issue varies between retailers, but they all admit to its existence.

Suppliers have an agreed list of products to be stocked by the retailer. Most contain a calendar of promotional events and many have agreed how their products should be displayed via a planogram. The optimum sales rate occurs when the elements of this agreement remain in place constantly, but this rarely happens. Any retailer non-compliance to the contractual agreement represents a sub-optimal deployment of its trade investments.

Suppliers must manage non-compliance from the 'bottom up', using store level EPoS data and requesting the retailer address issues in individual stores highlighted by the data. Suppliers measuring in this way can link their trading terms to retailer compliance. If full payment of a promotional gate fee becomes contingent on full and timely compliance with the promotion, the supplier benefits in two ways. If the retailer compliance doesn't improve, an element of the gate fee can be saved, reducing costs and improving the promotional ROI. Alternatively, compliance improves and sales of the supplier's products increase as the full impact of the intended promotion is enjoyed.

Sales Effectiveness – the ROI of the Sales Organisation

Suppliers may visit retail outlets to collect data, using it to manage the customer better centrally, often giving retailers information which their own systems can't provide. Although many major players make significant investments in outlet calling, so far only a handful have developed a reliable

way of calculating and measuring ROI. Resolving issues at store level can potentially deliver a 'big win', but given that only a minority of stores need fixing, manufacturers must identify where, when and how to target their finite resources to assure an acceptable ROI.

Our experience suggests that managing the fine detail of the customer relationship can yield as much as a 5% increase in sales volume. The data are available, the problem is certainly complex, but there are analytical models which can help brand owners navigate through these troubled waters!

Bringing ATL and BTL analysis together

How can we analyse the performance of the sales and marketing functions collectively and explore the synergies that exist between them? We advocate creating marketing and sales experiments that combine ATL and BTL elements. This is best analysed using a test matrix as illustrated in the hypothetical example below. Consider running a specific promotion for a product and a TV advertising campaign simultaneously. The promotion can be run in Tesco, whilst keeping Sainsbury as a control. The TV advertising can be split into three groups: a control region (say the South West) where there is no TV activity, a low weight region (say Scotland) where a modest amount of TV ratings are bought, and an up weight region (say Central) where a large number of rating are bought. The resulting matrix can be used for analysis.

	No advertising (South West)	Low Weight Advertising (Scotland)	Heavy Weight Advertising (Central)
No promotion (Sainsbury)	Cell 1 This cell has not been subject to any sales or marketing activity	Cell 2 Low number of TVRs only	Cell 3 High number of TVRS
Promotion (Tesco)	Cell 4 Only promotion	Cell 5 Promotion and low weight TV	Cell 6 Promotion and high weight TV

By comparing and contrasting sales performance across experimental cells over a period of time (say 3 - 6 months), the individual effects of TV advertising and the specific promotion and their collective impacts can be evaluated. For example:

- By contrasting cells 1 and 4, the effect of the promotion is derived.
- Analysis of sales across cells 1, 2, and 3 should yield a pure advertising response curve
- Comparing performance between cells 2 and 5, and cells 3 and 6 the synergies that exist between sales and marketing levers can be estimated.

Essentially, the experimental design we propose above provides a useful framework to evaluate the impact of sales and marketing activity. Combined with the other techniques discussed in this paper we have presented a menu of analytical options that in their entirety should enable optimal sales and marketing investment planning.

This is the abridged version of a white paper. To obtain a copy of the complete article please contact Sam Dias: sam.dias@omd.com