COMARCH

THE IMPACT OF SELL-OUT STRATEGY ON TRADITIONAL SALES CHANNEL IN THE FMCG SECTOR

WHITE PAPER

For more than a decade, opinions have been voiced at conferences and in publications about the demise of the traditional sales channel, with sales to consumers being taken over by large-surface or discount stores. Although it's true that the number of small-surface stores (<300 m2) has decreased in recent years, Central Europe is still far behind the Scandinavian model where large-surface stores predominate. Obviously, there are categories which sell mainly through modern channel (such as cosmetics and household cleaning products), but at the same time there are others that reach consumers mainly via traditional channel (beer and spirits).

Will FMCG producers cease distributing their products through traditional channel? No.

Are there any tools for measuring your business in those channel? Yes.

The FMCG (fast-moving consumer goods) sector is responsible for the marketing of stock such as foodstuffs, drinks, cosmetics, tobacco products, spirits and detergents. Until the end of the 1990s, practically the only sales strategy available to FMCG producers was the sell-in strategy (target for purchases by distributors).

The **sell-in strategy** relies on data of direct sales made by the producer to participants in the supply chain (distributor and wholesaler). Distributors' focus on sell-in was primarily due to the lack of technical possibilities to measure what happens to goods once they are purchased by a distributor. The sell-in strategy was not effective for those producers whose aim was to reach a large number of retail stores and develop the distribution of their products.

Almost 15 years ago, mainly due to modern IT systems such as Comarch Online Distribution, it became possible to measure quantities and values related to distributors' sell-out of purchased products, and to determine where and on what trading terms and conditions they were sold. Additionally, reliable information was obtained on the volume of actual inventories day by day at each of a distributor's branches. It became possible to apply a sell-out strategy (targeting distributors for selling goods to outlets).
The first systems of this type were implemented by Comarch on a large scale for companies such as Agros Nova and Carlsberg.

This platform, which Comarch have been developing for over 15 years, help us identify the following areas which are influenced by the sell-out strategy:

1. ORGANIZATIONAL/STRUCTURAL

- Reporting sell-out data to identify outlets not visited by the producer's field sales force. As a result, the producer is able to replace the outlet of each sales representative/sales developer (SR/SD) with those that, according to market data, are more profitable, have better potential to grow in view of competitors' market shares (categories), or which for various reasons require special care by the field sales force.
  By organizing places of SR/SD with customers, the producer has a direct impact on generating incremental margin.

- As a result of reports received on sales of the entire category, the producer is able to reorganize the work of the sales team to improve quality. **Sales data in each category include the producer's share in the purchases of the entire category in each retail store** irrespective of the number of distributors that sell the category to the store.

- Based on the reporting of purchases by retail outlets or HoReCa outlets, producers may **develop a sales strategy for entire geographical areas.** The strategies may differ by geography. For instance, if we know that 80% of sales in a category are generated in ten cities, of which one half is in two cities, the producer may decide to hire a dedicated person in the sales team to be responsible for generating business in these two core cities.

- A sales strategy covering geographical context may apply not only to the sales force structure, but also to the areas of operation of the distributors or their number. This is because it may, over time, transpire that there are too many distributors or that there are distribution white spots (no distributor in a sales area).

- Bonus programs for SRs include **rewarding the local sales force – not for the wholesale orders generated by them but for actual purchases by each store in their sales area.** An example is the possibility to reward the field sales force for rotation of products defined as TOP 10. Each TOP 10 product is to be purchased by a store handled by the SR/SD a minimum of X times in a quarter. With the possibility to define objective sell-out targets, the producer shifts the focus from discussions to specific tasks and the performance thereof.

- **The possibility to define various sales targets for various roles of the field sales force,** for instance, a sell-in target for the key account manager (KAM) a sell-out target for the DSR (SR for the distributor/wholesaler).

- The possibility of **better control of the entire geographical area by defining distribution programs**, for instance by covering retail customers not serviced by the producer's salesforce (a decision by the SR/SD about whether to visit the customer; and, if a visit is to be made, then which SR/SD – the producer's or the distributor's).

2. DISTRIBUTOR/WHOLESALER

The application of the sell-out strategy means targeting distributors not by what they purchased but what they sold to the market – this gives producers a real basis to reward the distributor (sales bonus) by:

A. Defining appropriate distribution programs with the **use of data on customers serviced and non-serviced** directly by the producer (coverage vs. out of coverage).

B. Disbursement of a **bonus for measurable and verifiable facts** and not relying on manual, collective statements of sales, drafted by the distributor.

C. Extension of numeric and weighted distribution (in the event of return reporting on resale in the entire category).

D. Separate definition of trading terms and conditions for business partners – defining separate distribution programs – one for the retail channel and another for sub-wholesalers.

E. Execution of maximum prices (margin corridor), meaning verification of prices at which distributors sell, which gives an opportunity to define different sales bonuses subject to customer category (for example, one bonus in catering and a different one in retail).

F. A more comprehensive view of the market (from various sales channels) – due to accurate knowledge of purchases and resales by each distributor, producer's employees responsible for wholesale to distributors get better tools during annual negotiations of the next distribution agreement, and the possibility of precise targeting and holding distributors accountable for their targets.

G. Verification of order execution by distributors. Despite no information being available on the financial condition of each retail store, the producer is able to assess the financial condition of the store by observing whether the distributors holding goods execute orders to the reviewed retail outlet or restaurant.

H. Possibility for distributors to manage inventories pursuant to the provisions of the distribution agreement, subject to the route to market strategy. With information about inventories of distributors (and branches of distributors operating multiple branches) updated daily, the producer may effectively manage minimum inventories in days (forward stock) and define and enforce minimum inventories, for example those for new products.

I. If a distributor closes its business, **the producer is able to manage the situation quickly** by taking over selected customers of the distributor to be serviced on its own or by transferring such customers to another distributor in the same geographical area.

3. MARKETING/TRADE MARKETING

The following elements may affect the reported data on sell-out and inventories:

A. Control of promotional arrangements – data on sell-out may provide information to support accounting for promotional actions, such as Comarch Trade Promotion Management.

B. Optimized marketing expenses earmarked **for the distribution network** (such as when ATL is to be activated).

C. Optimized trade marketing expenses (for example, by the appropriate selection of a store for promotional actions by the trade marketing department). With the data on resale, trade marketing is aware of how much the store is selling, at what prices the store buys from distributors, the store's potential, and whether any materials should be applied to support sales (e.g. fridge). If the producer cares about appropriate categorizing/segmentation of retail customers, sales data will support the appropriate development of dedicated sales programs for each store type.

4. PRODUCER DEMAND PLANNING

The existing distribution programs often make bonus payment in part subject to appropriate stocking, as may be required by the producer. The requirements may be defined in different ways, such as minimum daily stock.

Along with information on daily sell-out by the distributor, the producer also obtains data on daily inventories. In the context of production planning and supply management, the value of this information cannot be overestimated. As a result of comparison of ex-factory sales data with sell-out data, the producer is able to diagnose when a distributor's stock is too low compared to the distribution agreement (business contract). Additionally, the distributor is able to identify stocks in the stores that buy from the distributors, and thus may adjust the route of commercial visits by field sales force accordingly (to go or not to go).

The staff involved in demand planning can:

A. Respond immediately to changes (quantity, planned sales, activities of competitors) during a promotional action

B. Generate better sales forecasts on the basis of data on current sales to distributors, sell-out and stock, relying on information on historic sales.

C. Due to detailed information on the delivery cycle to distributors, it is possible to **minimize the risk of being out of stock.**

When applying the sell-out strategy in demand planning, it is possible to optimize logistics costs. The sell-out strategy relies on a system whereby distributors do not have to buy in the last week of the settlement period for the sales target, and thus there are no sales peaks (also referred to as the hockey stick effect). As a result, orders for transport services do not have to be accumulated in one period (for example, the last week of each month).

5. PRODUCER ANALYSIS

Analysis by the producer is involved in practically all the above areas. However, it is worth stressing the possibility for recategorization/resegmentation of retail customers with which the producer works directly, for example by identifying the customers:

A. To whom a specific category is sold

B. To whom a specific category is sold and to whom the producer's products are not sold (no market share)

C. To whom a specific category is sold and to whom the producer's products are sold in small quantities (small market share).

This supports a revision of assumptions underlying work with such customers and investments with the customers where the category is sold and the producer's market share is small or does not exist.

A producer's analysis is very important with respect to customers serviced directly by the producer within a defined segment, such as restaurants. Internal analysis relying on sell-out data provides producers with responses to such questions as:

A. Has the restaurant bought what was contracted?

B. Have minimum contracted quantities been purchased?

C. Has the minimum frequency of purchases been preserved?

The areas identified above that are affected or may be affected by the reported sales data are among the major areas of interest to a producer acting wisely. A sales strategy based on sell-out is not the sole strategy to apply to FMCG products and, depending on the producer's organization level, targets and current market strategy, may be applied jointly with the sell-in strategy. Now the market offers mature IT systems to support producers in their measurement of sell-out, as a result of which they are able to effectively define and monitor activities, and hold business partners and sales force accountable for sell-out too.

ABOUT COMARCH

Founded in 1993, Comarch has more than 20 years of experience in designing, implementing and integrating IT solutions for enterprises in a variety of industries, including retail, consumer goods, DIY, logistics, manufacturing, pharmaceuticals, and oil and gas. Solutions for data exchange and document management are dedicated to master data management, e-procurement, e-invoicing and AP/AR processes. Comarch is a true end to end procure to pay solution provider. Moreover, the offer comprises a B2B network that guarantees secure and reliable data transmission with more than 130 000 entities worldwide in a short time. Comarch is cooperating with leading companies such as Metro Systems, Carrefour, Leroy Merlin, BP, BIC, Unilever, Red Bull, Carlsberg, Diageo, L'Oreal. With thousands of successfully completed projects, 15 data center locations and more than 80 offices in 30-plus countries, Comarch has the support and infrastructure necessary for high-volume rollouts.

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