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Outsourcing is In!

How CPG Companies Enhance Performance, Reduce Cost & Increase ROI through Outsourcing Sales and Marketing

EXECUTIVE SUMMARY

PRINCIPAL AUTHORS:

Atul Parvatiyar, Ph.D., Institute for Customer Relationship Management

Naveen Donthu, Ph.D., Georgia State University

Thomas W. Gruen, Ph.D., University of Colorado at Colorado Springs

Vijay Kasi, Ph.D., iCRM and Georgia State University

Brad Kesel, Institute for Customer Relationship Management

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THE FOLLOWING INDIVIDUALS MADE SIGNIFICANT CONTRIBUTIONS TO THIS STUDY:

Dr. Atul Parvatiyar	(Project Co-Leader), iCRM
Dr. Naveen Donthu	(Project Co-Leader), Georgia State University
Dr. Tom Gruen	University of Colorado at Colorado Springs
Dr. Wes Johnston	Georgia State University
Dr. Jagdish Sheth	Emory University
Dr. Vijay Kasi	iCRM and Georgia State University
Brad Kesel	iCRM
Paul van Leeuwen	iCRM

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Contact Information

ASMC Foundation

5225 Wisconsin Avenue, NW Suite 316, Washington, DC 20015-2055
ph: 202.293.1414 fx: 202.293.1702

email: info@asmcfoundation.org
www.asmcfoundation.org



GMA

1350 I Street, NW, Suite 300, Washington, DC 20005
ph: 202.639.5900 fx: 202.639.5932

www.gmaonline.org



iCRM

5317, Candleberry Drive, Lilburn, GA 30047
ph: 770.931.1951

www.institutecrm.com



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Executive Summary

Outsourcing of sales and marketing functions to external food brokers — in this report referred to as Sales and Marketing Agencies (SMAs) — has been prevalent in the consumer packaged goods (CPG) industry for many years. In addition to outsourcing various elements of manufacturing, supply chain, advertising, human resources and IT functions, many CPG companies outsource their sales and marketing tasks to SMAs. For years, the SMAs have successfully assisted CPG companies in introducing new products, increasing their speed to market, improving retail shelf management, maintaining continuity, and expanding market coverage. The trend of outsourcing key sales and marketing functions to SMAs has grown in recent years due to increased focus by CPG companies on reducing costs, improving marketing productivity, enhancing core capabilities, and ensuring product availability in a multi-channel marketing environment. Not surprisingly, retailers and CPG firms alike bestowed very high satisfaction ratings across all dimensions of their SMA relationships.

The prevalence of outsourcing sales and marketing by CPG companies is high, yet it is expected to grow further, driven by the increased propensity among leading companies to find ways to reduce costs and improve marketing effectiveness. SMAs have proven to be valuable to the CPG industry and retailers because of their ability to provide cost savings to the industry as well as their ability to increase product sales through intensive retail activities, including HQ sales support. For most CPG companies, SMAs provide a substantial return on investment as the invested infrastructure, sales teams and systems of SMAs are utilized by CPG companies to achieve their sales and marketing objectives. The superior regional/local market knowledge and expertise of SMAs provide the basis for building the business of many CPGs.

This report examines the growing trend of outsourcing sales and marketing functions and provides the first detailed assessment of the value contribution of SMAs to CPG manufacturers and retailers. Based on the findings of an empirical study of the prevalence of practices and their consequent impact on meeting performance objectives, this report identifies certain best practices in outsourcing sales and marketing tasks that increase efficiency and effectiveness of the CPG industry.

Conducted over an 18-month period, the study is an example of extensive collaboration between academics and managers of leading US retail companies, CPG manufacturers, and sales and marketing agencies. The distinctive mix of academic rigor and practitioner relevance is the hallmark of this report. Inputs for this study were obtained through a multi-stage research process involving in-depth interviews of senior executives of CPG companies, retailers, and SMAs.

The first edition of this report was published in 2006. The 2008 edition has been refined and updated to reflect new information relative to size of CPG companies and the extent of their utilization of SMAs.

The purpose of this study was to determine the prevalence of the practice of outsourcing various sales and marketing tasks by CPG companies and to assess the nature and amount of value created by SMAs for the CPG industry.

The specific objectives of the study were to:

- Determine the extent to which outsourcing sales and marketing (S&M) activities increased efficiencies, effectiveness, productivity and strategic capabilities of manufacturers and retailers
- Create a better understanding of how marketing efficiencies and effectiveness can be enhanced within the industry, and
- Identify best practices in outsourcing sales and marketing within the CPG industry including roles, tasks and results performed by SMAs

Since the scope of this study was limited to US practices, report findings and recommendations may not be applicable in the European or Asian context. The roles and responsibilities of SMAs vary between Europe and US. In Europe, unlike the US, most food brokers and sales agencies take title to the goods and handle their physical distribution. But the overall product promotion, retail and headquarters selling, and general HQ sales support are common across these markets as well, making portions of the study relevant globally.

Key Findings

The following is a summary of the Key Findings of the report:

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1 CPG PERSPECTIVE: SMAs PROVIDE ENHANCED MARKETING CAPABILITIES AND/OR COST ADVANTAGES

According to the research findings, most CPG companies stated that SMA's performed transaction services at a minimum 30-50 percent savings compared with direct sales force costs. Lower transactional costs for SMAs stemmed from scale advantages of the syndicated business service models and back room infrastructure to support retail reporting, syndicated data and HR, wherein SMA overheads and operating costs are spread over multiple products and manufacturers. Their costs were also lower because SMAs were better able to cope with the fluctuations and "peaks and valleys" of work force demand, especially for retail projects.

A manufacturer's decision to outsource is usually based on the needs of specific product categories. Products with scarce shelf space and that require constant attention are considered prime candidates for outsourcing, such as frozen foods and chilled items. CPG companies, even those who do not outsource their sales and marketing functions, acknowledged the superior capabilities of SMAs in providing more frequent retail coverage, more effective shelf task performance and the ability to generate greater "share of the voice." Hence retail selling and retail support functions were the most outsourced tasks across all CPG companies. Retail selling primarily relates to sales planning for individual stores as well as retail sell-through activities. Retail support functions refer to store merchandising arrangements and other project tasks such as resetting stores, organizing plan-o-grams, and assisting in retail store improvement programs.

Most survey respondents agreed that SMAs provided relationship continuity, superior regional/local market knowledge and expertise, customer insights, and multi-tier relationships with customers. They were considered quite effective in secondary selling, new item cut-ins, preventing "out-of-stocks," and managing promotional merchandising, displays and events. Those CPG companies which were significant users rated SMAs superior on most functions relating to headquarter selling, retail selling, retail support and merchandising, promotion management, sales administration, category management, and marketplace intelligence gathering and monitoring. The minimal outsourcers obviously have a greater perception of their own direct sales capabilities with respect to these activities, particularly headquarter selling. However, a large majority of CPG companies who use SMA infrastructure find that it provides much higher return on their investment.

Regarding specific headquarters selling functions, such as development of key contacts, achieving customer acceptance of new items, joint programs planning, and influencing favorable product placement for company brands, there were divided opinions among CPG company executives as to who had superior capabilities – SMAs or direct sales teams. With respect to certain planning functions, such as development of sales plans to meet targeted sales and profitability goals, and for presentation of sales plans to customers, the direct teams were perceived as more capable by most large cap companies, but small and medium companies were highly satisfied with their SMA services.

Larger CPG companies who are direct, believed their direct teams were more capable than SMAs with respect to retail promotion monitoring tasks, such as verifying the timing and distribution of FSIs (Free Standing Inserts) or reconciling cooperative advertising activities with available funding. They also rated internal teams as superior in performing such sales administration tasks as product sales forecasting, scheduling of optimal delivery intervals and volume, monitoring product delivery schedules, and unit volume delivery accuracy. But, on all other activities, particularly retail selling and support services, large CPG companies stated that SMAs were superior to their direct sales teams.

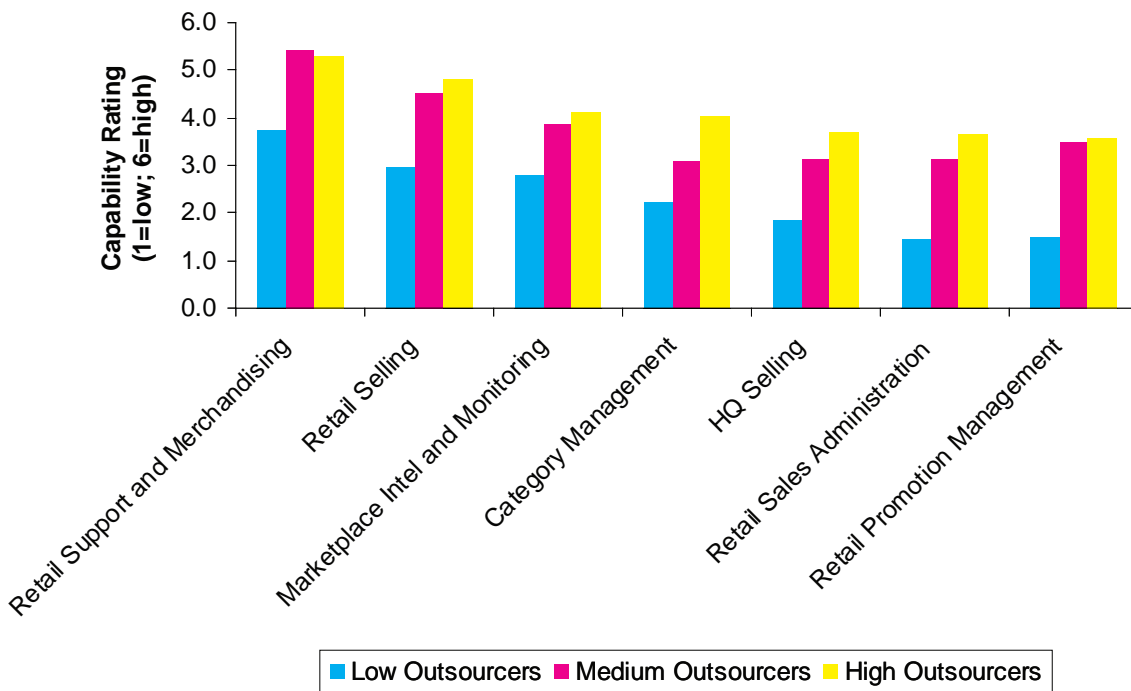
SMAs were considered far superior in all retail selling capabilities and retail support management, including: development and presentation of regional and local sales plans to meet targeted sales goals, profitability mix, new product introductions, coverage of retail stores at optimal intervals, product demonstrations to gain new product acceptance, developing and managing relationships with store managers and buyers, new product introductions, and all aspects of retail shelf management, promotional merchandising and retail “out of stock” prevention.

In recent years, SMAs have expanded their capabilities to include strategic consulting, category analysis, marketing communication, customized client retail solutions, and technology solution offerings to their clients.

Interestingly, when capability ratings are filtered on the extent of outsourcing utilization, differences are evident in the perceptions between high and low outsourcers. These differences are not insignificant, as they range between 1 and 2 full rating points.

The chart below summarizes CPG perceptions of relative capability of SMAs. Note that high outsourcers unanimously believe that SMAs are superior to internal resources in performance of key functions, while CPGs practicing little or no outsourcing have a much lower perception of SMA capabilities. These findings suggest that CPGs practicing little or no outsourcing may be missing opportunities to enhance performance through higher utilization of SMAs.

► **FIGURE 1: Perceptions of Relative SMA Capability by Outsourcing Utilization**



CASE STUDY: RAPID AND EFFECTIVE CUT-IN OF 31 NEW ITEMS

The following case illustrates how an SMA firm successfully managed a large new product introduction for a CPG firm.

In a two-week period, the SMA firm had to:

- Cut-in 31 new pet food items in more than 2,000 stores of a major retailer
- Visit 70 percent of stores in the first week
- Ensure new shelf tags are in place
- Pack out shelf
- Complete reset

The SMA firm handled the following steps:

- Received project request from CPG firm
- Identified required stores for project
- Built stores list and project plan
- Sent project plan to field
- Assigned field labor and executed project
- Pulled reports daily to ensure timely execution
- Sent reports to client weekly

Impact of SMA's work:

- Number of stores in project – 2,164
- Number of stores completed – 2,055
- 2-week completion rate –95 percent
- Pet Food
 - Out-Of-Stocks Corrected – 831
 - Voids Corrected – 396
 - Tags Replaced – 1,475
- Litter
 - Out-of-Stocks Corrected – 25
 - Voids Corrected – 6
 - Tags Replaced – 1,475

ROI Ratio Impact - \$233.33 to every \$1.00

2 RETAILER PERSPECTIVE: RETAILERS WHO USE BOTH DIRECT AND SMAs ARE HIGHLY SATISFIED WITH SMA SERVICES, INCLUDING CATEGORY INSIGHTS AND FOCUS ON SELL-THROUGH

Retailers highly valued the work of SMAs particularly in aligning and marrying manufacturer strategies with retailer plans. They were viewed as good partners since both shared common goals with respect to achieving retail sales, were knowledgeable about customer processes, and had appropriate relationships to accomplish necessary tasks. According to retailers, SMAs produced efficiencies in the overall process due to their good sectional view on category improvement and the large portfolio of products they represented — features that facilitated a myriad of decisions through a single contact. That helped retailers optimize their time for overall sales and merchandising management. They could also provide more inputs to manufacturers through SMAs due to the portfolio handled by them.

In the opinion of retailers, SMAs bring proximity and intimacy to the table, thus facilitating better top-to-top dialog and articulation of retailer strategy to manufacturers. At the operational level, the focus of retailers is in achieving “sell-through”. The expertise and efforts of SMAs in supporting such sell-through is recognized by retailers as very valuable. Retailers also value the field work performed by SMAs with respect to store project executions and other related tasks.

3 COMPETITION AND MARKET FORCES DRIVE ADDITIONAL OUTSOURCING

Intense competition and shifting market forces are driving CPG companies to increase outsourcing of their sales and marketing functions to SMAs. Senior executives are finding ways to deal with marketing productivity challenges and margin pressures caused by retail price erosion and rising wages and fuel costs. Outsourcing to SMAs is considered a viable option for increasing efficiencies and effectiveness of the sales and marketing processes. Also, limitations in available resources within the context of a rapidly and ever changing business landscape are prompting CPG companies to focus more on their core capabilities and outsource those functions that can be better performed by others.

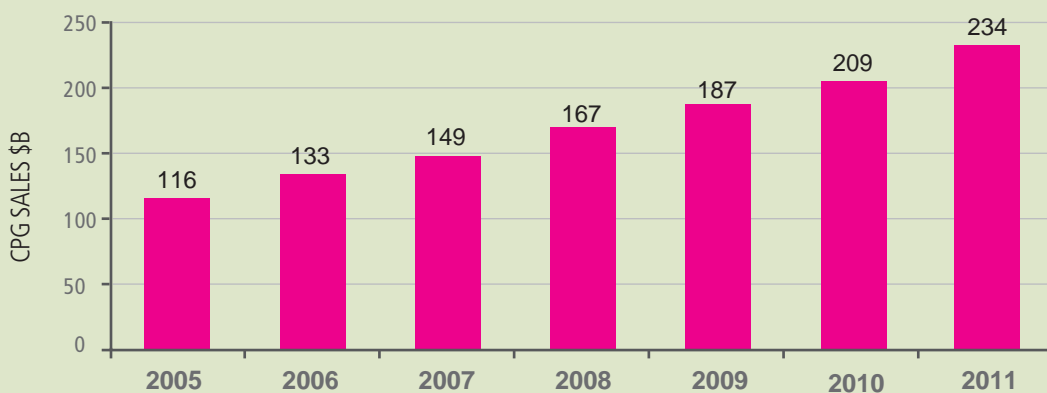
SMAs are also gaining more business opportunities because of evolving retail trends in multi-channel marketing. For example, non-traditional specialty retailers are increasingly including CPG food products as part of lifestyle offerings. Also, the expansion of mega-retailers into new geographies, new categories, new formats and new price positioning is compelling CPG companies to devise ways of participating more actively with retailer-defined tasks and objectives. Since many CPG companies do not have the resources or capabilities to extend their participation into the expanded scope of multi-channel retail advancement, they are choosing to focus their activities on product and brand development while outsourcing the sales, marketing and retail merchandising to SMAs.

Capability outsourcing is not new to CPG companies as they have experience in outsourcing of raw materials, manufacturing, supply chain management, IT functions, advertising and distribution. Most have also used SMAs for a considerable period of time. However, pressure now seems to have intensified even among the largest CPG companies to consider outsourcing to SMAs, including Kraft, General Mills and Procter and Gamble — companies that have traditionally used direct sales teams.

4 ANNUAL GROWTH OF SMA MARKET ESTIMATED AT 10-15 PERCENT

SMAs currently represent about 54 percent of all CPG company retail sales revenues in the United States — in 2007, equivalent to \$149 billion in actual cash value of commodity revenues for CPG companies. Given the trends of increased outsourcing, the level of market representation by SMAs grew by 15 percent per year between 2005 and 2006, about 12 percent in 2007, and it is expected to grow at the same level of 12 percent in 2008 and beyond. Thus, by 2011, SMAs would represent \$234 billion — almost double the 2005 level — in CPG sales to the retail channels. The gain in representation of CPG revenues will largely come from three sources - shifts from CPG direct sales to agencies; growth in new categories of products such as organics and naturals; and the significant growth of such channels as dollar stores and lifestyle stores.

► **FIGURE 2:** Estimated and Expected CPG Sales Represented by SMAs



SMAs currently represent about 67 percent of all CPG brands and cover 63 percent of retail customers, indicating that a majority of the companies who outsource tend to outsource most of their brands and customer sales calls to SMAs. Hence the study results show that 55 percent of CPG companies outsource more than 65 percent of their retail sales dollars; and 60 percent of them outsource 80 percent of their brands to SMAs.

CPG companies expressed significant interest in increasing their market coverage primarily to the fast evolving multi-channel world. Even in more traditional supermarket channels, high value stores account for 60 percent of all commodities actual cash value, while independents and smaller customers offer higher opportunities to increase actual cash value and margins. Therefore, for reasons of scale and local market presence, SMAs are considered to be better positioned to service these customers than direct sales teams. Similarly, because the traditional grocery retailers are evolving from food to “one stop shop” concepts, blending both grocery and non-grocery retail categories into one full-line, full-service provider, CPG companies are more interested in leveraging SMA knowledge of a wide array of products across manufacturers to develop consumer solutions.

The emergence of an expanded scope of merchandise in non-grocery retailers, such as “Dollar” stores and specialty lifestyle stores including Barnes & Noble, Best Buy, Home Depot, Victoria’s Secret, and Toys “R” Us are prompting certain CPG companies to seek support from SMAs in selling and servicing these potential customers. Servicing such emerging channels through a direct sales force is considered difficult even for those companies that have high resource availability.

► **FIGURE 3:** Prevalence of Outsourcing Sales and Marketing to SMAs by CPG Companies

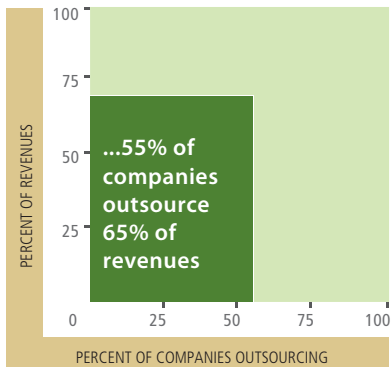


FIGURE 3a: Percent of CPG Revenues Outsourced

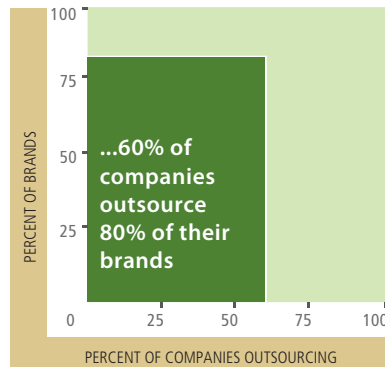


FIGURE 3b: Percent of Brands Outsourced

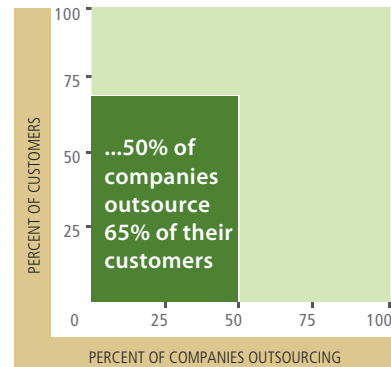


FIGURE 3c: Percent of Customers Outsourced

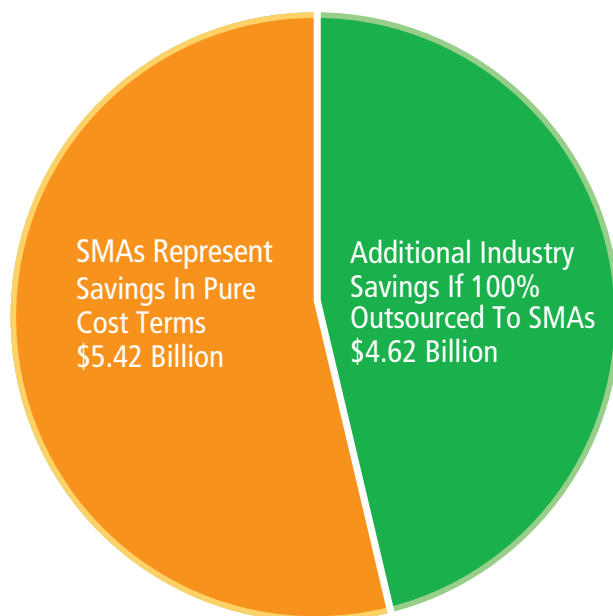
5 \$5.42B + ANNUAL SAVINGS DERIVED BY CPG COMPANIES

At 2007 levels of outsourcing to SMAs, CPG companies derived an economic value of more than \$5.42 billion. This value (adjusted modestly for perceived SMA effectiveness compared with direct sales teams), reflects net cost savings accrued via outsourcing by CPG companies.

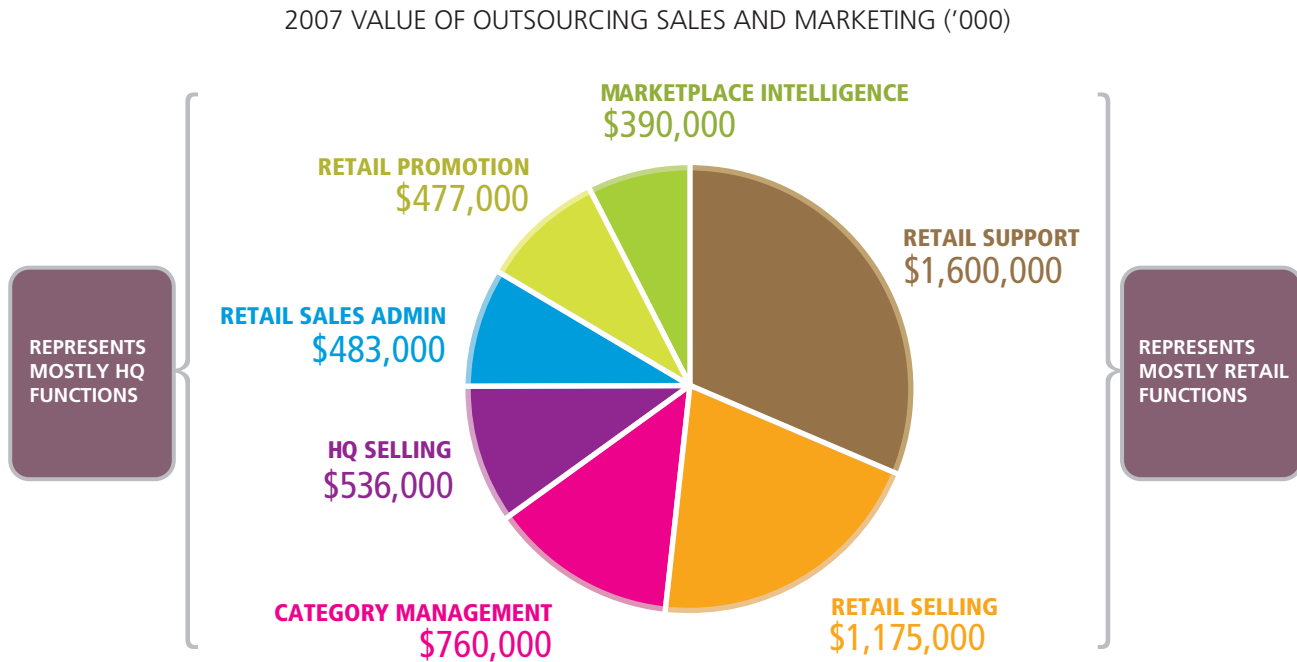
Additional net value contribution to the industry of \$4.62 billion is possible from outsourcing the remaining 46 percent of CPG sales revenues not currently represented by the SMAs. If CPG companies did outsource all the sales and marketing functions that were currently performed by direct sales teams, SMAs would gain additional professional service revenues of over \$2.54 billion.

Together, SMAs and CPG companies would gain further by making collaborative efforts to increase the effectiveness of SMAs in achieving CPG company marketing objectives. SMA performance can be improved in several areas including promotional effectiveness, customer service processes, and entry into new markets.

► **FIGURE 4:** Value Derived by CPG Companies from Outsourcing to SMAs



► **FIGURE 5:** SMA Value Contribution to CPG Industry by Various Functions



6 CPG COMPANIES FAVOR CONTINUOUS REVIEW & COLLABORATION

According to the research results, CPG companies were more in favor of continuous review and planning processes to manage their relationships with SMAs. In other words, CPG companies preferred being involved in the overall management of tasks performed by SMAs rather than maintaining a hands-off approach. Structural issues seemed less important in terms of how teams were organized compared with the relationship management process and governance (see Table 1).

CPG companies believed that best value was derived through collaborative processes that built the working chemistry between manufacturers and SMAs. Through collaborative efforts, manufacturers and SMAs were undertaking joint development activities that resulted in long-term gains for all parties concerned.

As far as the decision to seek dedicated versus syndicated sales-service teams from SMAs were concerned, CPG companies did not have a consensus. Individual companies indicated that they had their own requirements with respect to the extent of focus and expertise that they needed from the sales agency teams. For products requiring considerable touch time and with significant demand for merchandising activities across the store, the perceived need for dedicated teams increased. However, this required a balance with cost (and other benefits) advantages that syndicated teams frequently offered. Given many contributing performance factors, ROI is best determined on an individual company basis. Noteworthy is the fact many CPG companies can see a higher return on their SMA investment when an asset-based measure is used. SMAs weighed their own needs for dedicated focus on some brands versus cost advantages of sharing teams across multiple company brands in making decisions between dedicated versus syndicated sales-service teams from SMAs.

The collaborative dimensions of managing SMA-CPG company relationships were characterized by:

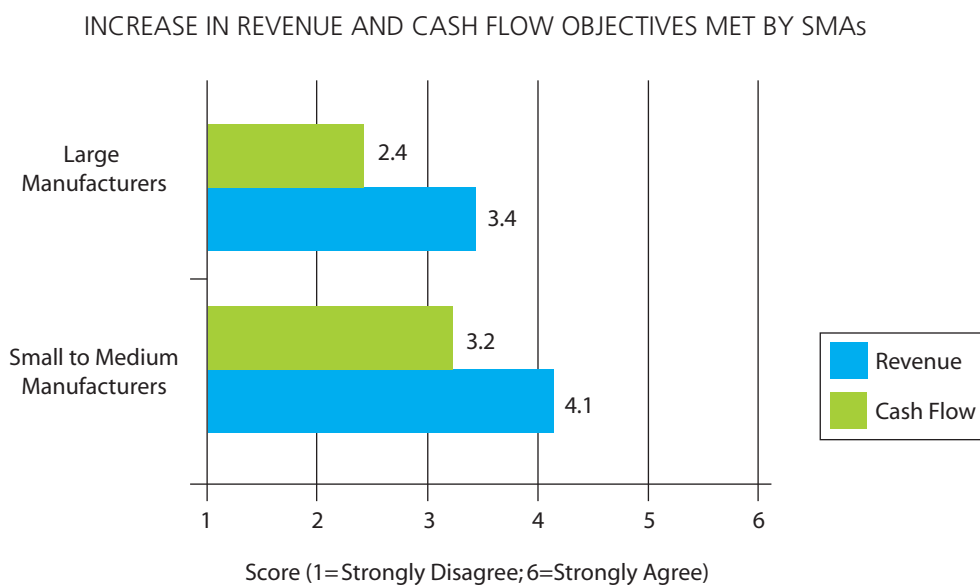
- a. Periodic meetings to review progress and achievements
- b. Collaborative governance with joint development of strategies, plans, systems, processes and competencies
Continuous improvement process planning and implementation by both parties
- d. Independent responsibilities undertaken by company executives and SMAs to manage the relationship
- e. Established processes for reviewing results
Ongoing transparency of SMA activities and results
- g. Continuous visibility (including web-enabled reporting tools)
- h. Alignment of each party's sales administration process to avoid duplication of activities and errors
- i. Well-defined roles and responsibilities of SMAs vis-à-vis CPG internal sales teams
- j. Variable models – dedicated or syndicated teams according to the need of the client

► **Table 1: Importance of Processes for Managing Client - SMA Relationship**

Rank	Top Rated Relationship Governance Characteristics	Mean Score Agree <small>Strongly disagree=1 Strongly agree=6</small>	% Practice
1	Meetings to review progress and achievements	5.5	46%
2	Collaborative governance	5.3	46%
3	Continuous improvement process	5.2	28%
4	Independent responsibilities	5.1	32%
4	Process for reviewing results	5.1	35%
4	Continuous visibility	5.1	28%
5	Alignment of processes to avoid duplication	4.9	21%

7 SMALL OR LARGE, CPGs REAP SIGNIFICANT BENEFITS -- IN DISTINCTLY DIFFERENT WAYS -- FROM SMA OUTSOURCING

Capabilities and needs of manufacturers vary by their size. The study clearly demonstrates that perceptions also differ with CPG company size across the various value dimensions of SMA services. Not surprisingly, large CPGs have different needs than smaller CPGs. And, while size and perceptions differ, it is important to note SMAs attained high satisfaction scores (ranging from 4.3 to 5.2 on a scale of 1-6) from both CPGs and Retailers across process, performance, relationship continuity commitment and partnering dimensions. For context, it is important to keep in mind higher capability and satisfaction scores were consistently offered by those CPG firms with higher outsourcing utilization. (See Key Findings 1 & 8.)

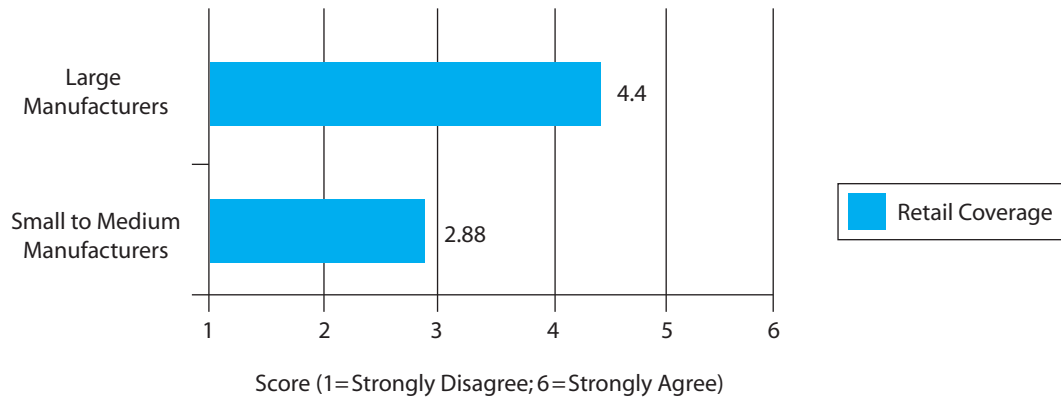


► **FIGURE 6:**
Compared to large companies, more small/medium size manufacturers state that SMAs increase their revenues and cash flows.

Compared to large companies, more small/medium size manufacturers state that SMAs increase their revenues and cash flows, and agree strongly that SMAs perform better at building relationships, gaining market access, enhancing competitive position, achieving market share, growing product sales, and improving share of customer's business. Small/medium companies also perceive SMAs perform better in headquarter sales activities and retail promotional activities as well as category and deduction management. Further, small/medium companies are more satisfied with SMAs than large companies when it comes to sales effectiveness, market penetration, and introduction of new products.

Large manufacturers, on the other hand, see more benefit in using SMAs to achieve speed to market and address stock-outs. Additionally, large manufacturers see more value in retail coverage and market intelligence activities performed by SMAs. These benefits represent key reasons for large company retention of SMA services.

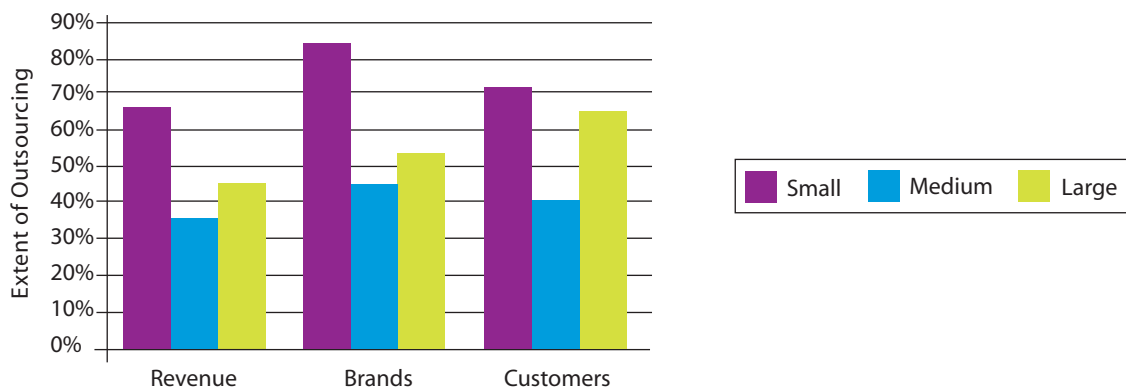
RETAIL COVERAGE SATISFACTION



► **FIGURE 7:**

Large companies are more satisfied than small/medium companies with the retail coverage provided by SMAs.

In general, small and medium size companies see most value in the headquarters selling activities performed by SMAs, while large companies see most value in field activities. Consequently, SMAs should tailor their approaches to emphasize different capabilities when targeting different sized manufacturers. SMAs targeting small/medium sized companies should be prepared to provide a wider array of services than SMAs that target large manufacturers. Findings also indicate small/medium companies are more likely to enhance their relationships with SMAs and seek more services from SMAs than large companies, suggesting this represents a growth opportunity segment for SMAs.



► **FIGURE 8:**

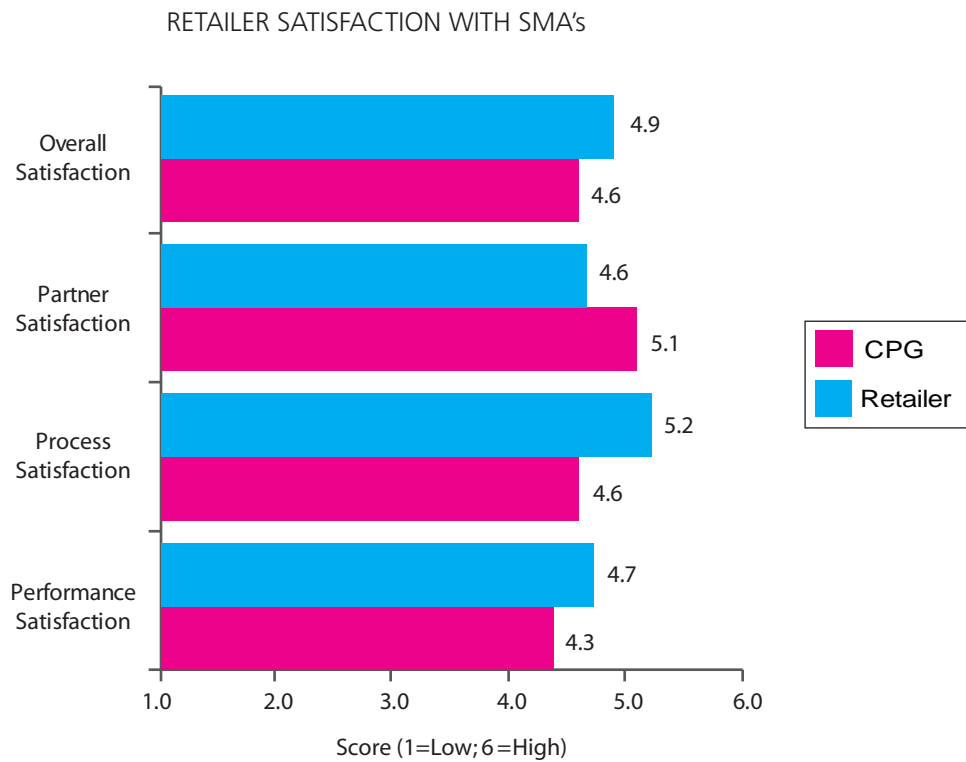
The extent of outsourcing is highest among small companies, followed by large companies

Differences between CPGs' outsourcing behaviors must be viewed within an overall business context: small companies do not have the same capabilities and competencies to perform all sales and marketing activities in-house, leading to a larger percentage of outsourced activities. It follows that small companies outsource a larger percent of their revenues, brands, and customers than their larger counterparts. Large companies on the other hand, have significant resources, yet find outsourcing partners helpful in attaining advantages in areas such as retail coverage, market intelligence and other field activities.

8 CPG COMPANIES & RETAILERS ARE HIGHLY SATISFIED WITH THEIR SMA RELATIONSHIPS

Most companies were highly satisfied with their SMA relationships. They were most satisfied with the attributes of their SMA partners, irrespective of the level of outsourcing arrangement they were engaged in. There were also no major differences in the satisfaction rating scores given by small, medium and large size companies as detailed in Part 8 of the report.

The satisfaction levels were quite high with the process by which the SMAs managed their relationship with CPG companies. Not only do they enjoy working with their SMA partner, but feel the working partnership between the two parties is excellent. They perceive their SMA partners to be very responsive to their needs. They also feel their SMAs are using processes superior to their CPG counterparts. CPG manufacturers are also very satisfied with the relationship with their current SMA. They are pleased about their SMA representing their products, are impressed with the management team and have good faith in their SMA's management philosophy. Retailers also rated satisfaction with SMAs highly, slightly exceeding the high ratings by CPGs in all but the partnering dimension. Outsourcing CPG companies gave significantly higher scores on all satisfaction dimensions (with the exception of partnering dimension). This finding also suggests low/no outsourcing CPGs may find opportunities to improve with increasing SMA utilization.

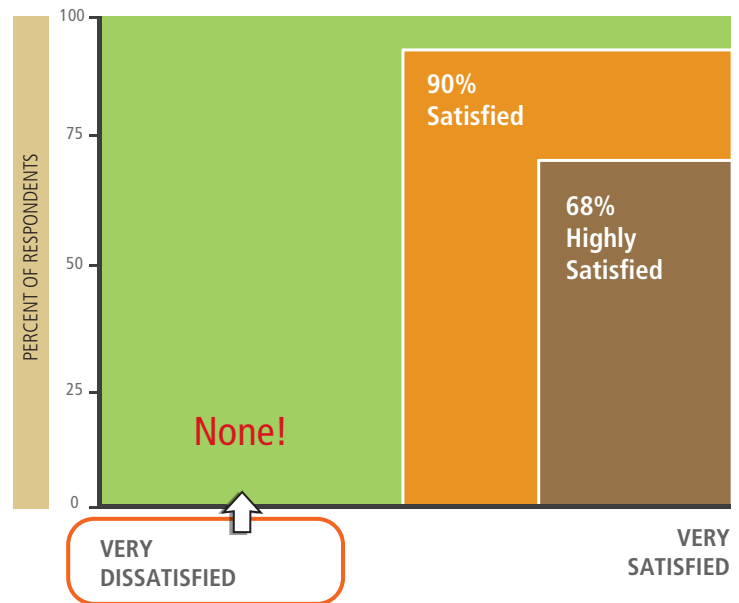


► **FIGURE 9:**

Retailers rated relationship satisfaction with SMAs higher than CPGs in all but the partnering dimension

Although CPG companies seem to be seeking wider market coverage, it is unclear if their plans and incentives are aligned to achieve the same. SMAs are generally compensated on sales performance and therefore maybe aligning their resources and efforts in such territories and customers that produce the highest impact on sales. If CPG companies want wider market coverage, then they may have to align their sales plans and promotion budgets to deliver superior results and improve their overall marketing effectiveness. It also calls for a more collaborative relationship with SMAs in developing plans and strategies for improved results in areas of critical importance.

► **FIGURE 10:**
Percent of CPG Companies Satisfied
with Overall SMA Relationship



9 FOR CERTAIN CPG COMPANIES, SALES EFFECTIVENESS IS A MORE IMPORTANT OBJECTIVE THAN COST REDUCTION

In general, CPG companies seek both effectiveness and efficiency goals when outsourcing sales and marketing tasks to SMAs. However, sales and marketing effectiveness related objectives are more important and drive the level of outsourcing to SMAs.

Particularly, the following marketing effectiveness objectives are most important:

- Introduce new products and items
- Improve market coverage and distribution
- Increase product sales
- Improve promotional effectiveness
- Reduce “retail out-of-stocks”
- Provide superior competitive position

Among the efficiency objectives, the following are considered most important:

- Increase speed to market
- Improve product availability and visibility
- Rapid implementation of marketing programs
- Improve customer service and processes
- Reduce sales and marketing costs

Conclusions

As the prevalence of outsourcing of sales and marketing activities by CPG companies increases there is a need to evaluate the performance of sales and marketing agencies. This study was commissioned with that objective. The study has demonstrated that:

1. **CPG companies see significant value in the work performed by the SMAs.** In 2006, CPG companies derived an economic value of more than \$4.8B from outsourcing to SMAs when compared to the use of direct sales teams.
2. **Retailers see high benefit as well.** Retailers who use both CPG direct and SMA teams highly valued the work of SMAs across a broad array of sales and merchandising activities.
3. **Missed opportunities for CPGs are likely.** CPGs practicing little or no outsourcing may be missing opportunities to enhance performance through higher utilization of SMAs.
4. **Cost savings alone are significant.** Most CPG companies believed that SMAs performed transaction services at nearly 30 percent lower cost than direct sales teams.
5. **Benefits go beyond cost savings.** Outsourcing permits CPG companies to focus more on their core capabilities, while SMAs increase return on investment, cost reduction (efficiency) and performance (effectiveness).
6. **Prevalence of outsourcing is considerable.** CPG companies outsource more than half of their relevant retail sales and two-thirds of their brands to SMAs.
7. **Outsourcing is a growing trend.** At a 10-15 percent growth rate, CPG companies are increasing their outsourcing of sales and marketing activities due to various pressures they face.
8. **Differences in CPG needs exist.** Larger CPG companies have different service needs from SMAs than smaller and medium-sized CPG companies.
9. **Joint development activities result in long-term gains.** Collaborative management is considered a best practice in managing the agency relationship. Collaborative efforts between CPGs and SMAs undertaking joint development activities resulted in long-term gains for all parties.
10. **Growth opportunities for SMAs are in reach.** There are tremendous growth opportunities (for the agencies who are well positioned) to obtain additional business in the form of 1) current clients outsourcing more activities, 2) new clients entering the outsourcing arena, 3) new channel opportunities, 4) international growth.

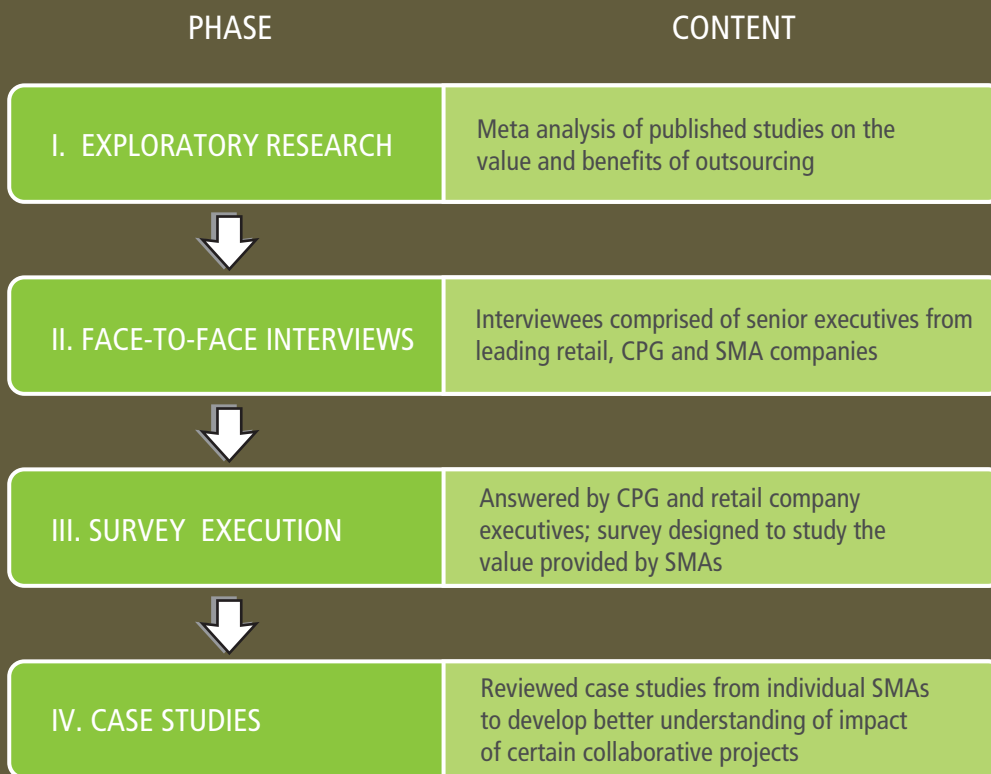
At \$5.42B, the net value contribution of outsourcing to SMAs is quite significant. The industry can gain further by increasing the level of outsourcing and by working collaboratively with SMAs in improving their effectiveness. SMAs will continue to improve their operational efficiencies and increase retail coverage plans into new territories and alternative channels to take advantage of the emerging opportunities and evolving retail transformation.

Overall, processes are more important than structural issues for managing relationships with customers and clients. SMAs should strive to involve clients in major planning and review activities as well as the overall governance of the relationship. Collaborative methods of managing outsourcing relationships are preferred and yield best results. Both retailers and CPG companies are highly satisfied with SMA processes and attributes. However, large perception differences remain in satisfaction and capability ratings between low/no outsourcing CPGs and their moderate/high outsourcing counterparts. Clearly, high outsourcers place a much higher value on SMA capabilities than low outsourcers. This finding is supported by associated satisfaction scores on all dimensions. In this light, CPGs not fully utilizing SMAs for their sales and marketing functions may want to re-evaluate sales and marketing resource strategies and consider expansion of their outsourcing practices.

With respect to areas of SMA performance evaluation, CPG companies may have to re-examine their own models of operation and expectations, particularly with regard to improving return on investment and profitability plans. CPG companies usually seek control of the sales and promotion function and planning budgets but expect SMAs to deliver superior results. Often, retailers are aware that SMAs do not have full visibility of the promotional budget; hence they tend to defer the trade negotiations to senior executives from CPG companies. By operating more cooperatively and collaboratively with SMAs, CPG companies can enhance results in areas of critical importance.

Methodology

The methodology for this study included both exploratory and descriptive research techniques. The study was conducted in four phases:



RESEARCH PROCESS

Further details regarding the study's methodology can be found in Part 2 of the main report.

About The Authors

Atul Parvatiyar, Ph.D.

Dr. Atul Parvatiyar is Principal Consultant & CEO of the Institute for Customer Relationship Management (iCRM) and responsible for the overall operations of the company in USA, UK, India and Malaysia. He is also the Robinson Research Fellow & Managing Director of the Center for Business & Industrial Marketing at Georgia State University. He has published several research papers and books and led industry best practice studies on global customer management; retailer-vendor relationships; outsourcing; and effectiveness of sales and marketing. He is project leader for several industry studies including assessing the Value of Outsourcing Sales and Marketing by CPG Companies on behalf of Grocery Manufacturers of America, the Foodservice Sales and Marketing Association and ASMC Foundation. He also led the Retail industry best practice study on post-audit recovery and chaired the steering committee of its Best Practice Forum.

Atul has been involved in strategy consulting for several leading organizations including Allstate Insurance, Bank of America, Bose Corporation, The Coca-Cola Company, Celcom, City of Atlanta, CIMB Bank, DraftFCB, Kimberly-Clark Professional, Kuok Group (Singapore), Mavesa (Venezuela), Milliken International, Nautilus Inc., Panasonic, Panacea-Biotec, Piramal Enterprises, PRG-Schultz, Shoppers' Stop (India), Siemens, SMC Pneumatics, DOAS - State of Georgia, Telekom Malaysia and Toyota.

Previously, Atul was a Marketing Professor and Associate Director of Center for Relationship Marketing at the Goizueta Business School of Emory University where he won the MBA Distinguished Educator Award. Dr. Parvatiyar received his MBA and Ph.D. Degrees from Banaras Hindu University in India.

Naveen Donthu, Ph.D.

Naveen Donthu (www.donthu.com) is the Katherine S. Bernhardt Research Professor and Professor of Marketing at Georgia State University. Dr. Donthu received his Ph.D. in Marketing from the University of Texas at Austin. His expertise includes marketing research, consumer research, advertising, cross-cultural issues, marketing metrics, and electronic commerce. He has published over 100 research papers in leading marketing and advertising journals and proceedings.

Professor Donthu has consulted for several national and international companies such as Apple Computers, Marriott Corporation, Southern Company, BellSouth, UPS, Chick-fil-A, and ServiceMaster and presented executive seminars to managers from many countries.

Naveen has received industry support and several academic grants to conduct research. Naveen is the doctoral program coordinator for the Marketing Department at Georgia State University. He has been the President of the American Marketing Association Marketing Research SIG and the VP for Meeting of the INFORMS Society for Marketing Science. He has received the Georgia State University Outstanding Faculty Achievement Award (university-wide award for extraordinary achievement in teaching, research and service).

Tom Gruen, Ph.D.

Thomas W. Gruen is Professor of Marketing at the University of Colorado at Colorado Springs, (UCCS) where he joined the faculty in 2001. Prior to that he was on the faculty of the Goizueta Business School at Emory University from 1996-2001. He holds Ph.D., MS, and MBA degrees in Marketing from Indiana University's Kelly School of Business. Prior to entering the academic world, he worked as a retail trade association executive for ten years and as an account executive for the Bell System for three years.

His research focuses on the management of customer relationships, focusing on retailer-manufacturer relationships in the fast-moving consumer goods industry. His research has been widely published including the Harvard Business Review, Journal of Marketing, Journal of Retailing, Journal of Business Research, and Journal of Applied Psychology.

At UCCS, Tom teaches e-commerce and Marketing Strategy to both MBAs and undergraduates. In addition to the above responsibilities, he is a regular Visiting Professor at ESCP in Paris, France, serves on the ECR-Europe Academic Advisory Panel, is a member of the editorial review board for the Journal of the Academy of Marketing Science, and is a research fellow at the Atlanta-based Institute for Customer Relationship Management.

Vijay Kasi, Ph.D.

Vijay Kasi, PhD. is currently Sourcing Strategy Manager at Georgia Pacific. He recently obtained his doctoral degree from Georgia State University in Information Technology. He has worked for the Institute for Customer Relationship Management as a Senior Analyst. His expertise is in the areas of project management, computer information systems, and statistical analysis.

Brad Kesel

Brad Kesel is Vice President, Projects and Business Development for iCRM in Atlanta, and brings research, consulting, engineering, sales, marketing, and new product development experience to iCRM. In this role, he has managed the company's US operations and delivered consulting and research services for several global Fortune clients. Previous to iCRM, he was Founder and CEO of a new venture, VOC Systems, which provides a patented customer feedback solution to the hospitality and retail industries. Earlier in his career, he held a variety of engineering, sales and managerial roles at Texas Instruments, WR Grace and Parker Hannifin. He has earned three patents in areas ranging from customer feedback processes to a thermal management solution for portable computers. Brad holds an MBA from Emory University's Goizueta Business School and a BS in Engineering from Lehigh University.



ASMC Foundation

5225 Wisconsin Avenue, NW Suite 316,
Washington, DC 20015-2055
ph: 202.293.1414 fx: 202.293.1702

email: info@asmcfoundation.org
www.asmcfoundation.org



GMA

1350 I Street, NW, Suite 300,
Washington, DC 20005
ph: 202.639.5900 fx: 202.639.5932

www.gmaonline.org



iCRM

5317, Candleberry Drive,
Lilburn, GA 30047
ph: 770.931.1951

www.institutecrm.com

