Maximizing the Impact of Outsourcing:

How CPGs Can Best Use Sales and Marketing Agencies in a Changing Environment

EXECUTIVE SUMMARY

ASMC Foundation

GMA
The Association of Food, Beverage and Consumer Products Companies

BAIN & COMPANY

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INTRODUCTION

Consumer packaged goods companies (CPGs) of all kinds can realize extensive value by scrutinizing their sales and marketing agency (SMA) usage decisions more thoroughly. After all, almost 90 percent of North American CPGs already use SMAs in some form. Yet, in our analysis, very few CPGs today can fully quantify the results. **Bottom line: Significant opportunity remains for CPGs to optimize their outsourcing strategy and drive value creation.**

CPGs that have carefully considered their use of SMAs often realize double-digit cost savings with improved effectiveness, when done right. We estimate SMA optimization could be worth hundreds of millions of dollars for the industry.

The backdrop for this SMA reexamination is the changing retail landscape, which is becoming more and more difficult to navigate. Several mega-trends have emerged:

- **Retailers are consolidating and differentiating** from one another to survive
- **Localization is becoming more predominant.** The 'war in the store' has escalated and become more complex
- **Private label continues to advance**, increasing the pressure on CPGs to focus on core activities that differentiate, like innovation
- **CPGs are expected to do more with less**, amid a continued focus on system costs

In addition, SMA capabilities have been improving; the SMA of today is a vastly different entity than the perceived food broker of the past. Changes include:

- **The SMA industry has invested heavily in technology.** SMAs' enhanced technology provides CPGs with not only better information-based consumer insights, but also more visibility into SMA activities on a day-to-day basis.
- **The quality of SMA personnel has also continued to improve.** Today, SMAs recruit from the same sources as CPGs (or from CPGs themselves). They invest in training, and develop retailer-specific expertise.
- S**MAs have also created new service models to meet CPGs' differing needs** at both headquarters and retail. For example, the syndicated team model has been supplemented by options for dedicated SMA support. At headquarters, SMAs often offer a menu of services from which CPGs may pick and choose.
- **Pricing has moved beyond solely flat commissions** and now incorporates more pay-for-performance elements and pay-for-activity options.

These trends *require* CPGs to fundamentally re-think their go-to-market models and core capabilities. CPGs must determine what role SMAs could play in today's operations to drive efficiency, effectiveness and focus. Our research has revealed a number of leading practices and trends that will aid CPG decision-making about sales and marketing agencies.

INTRODUCTION (cont.)

We have organized our findings into three categories. CPGs can start by taking a closer look at commonly held viewpoints in each area:

Traditional View	New Findings
Retail: Outsourcing retail is straightforward—if you are subscale, you should use an SMA	Progressive CPGs—even the largest companies—are working with SMAs to ***tailor* retail coverage** for each retailer, season, and category
Headquarters: Headquarters selling to 'strategic customers' should never be outsourced	Successful CPGs **focus direct attention on fewer strategic customers** (<5-8), and many **use SMAs in support roles even with top customers**
SMA–CPG relationship: 'Outsource it and forget about it'	How an SMA–CPG relationship is structured and managed matters—**active and ongoing management** drives results

Readers will emerge with a set of critical diagnostic questions to consider—as well as potential actions to drive results.

OBJECTIVES AND METHODOLOGY

This study was conducted by Bain & Company, in conjunction with the Grocery Manufacturers Association (GMA) and the ASMC Foundation (ASMC). *Maximizing the Impact of Outsourcing* examines the outsourcing of sales and marketing functions to external food brokers, referred to here as sales and marketing agencies (SMAs).

The GMA and ASMC had conducted two earlier studies on this topic. *The Value of Outsourcing*, published in 2006, created a baseline for the prevalence of outsourcing by CPG companies. That study was refined and updated in 2007, under the title *Outsourcing Is In*, to better reflect differences by size of CPG manufacturers. This study, the first with Bain & Company's participation, is designed to help CPGs analyze their outsourcing decisions and maximize the value of their SMA relationships.

This Executive Summary of *Maximizing the Impact of Outsourcing* is a synopsis of the full study, which contains more detailed information. Copies of the full report may be obtained from the GMA or ASMC.

The primary objectives of this study are to:

- Determine the prevalence of outsourcing sales and marketing activities to SMAs
- Analyze the rationale for outsourcing decisions
- Understand the benefits SMAs provide
- Evaluate current satisfaction with SMA arrangements
- Understand the motivation for and evaluate the outcomes of major changes in SMA usage
- Analyze the impact of industry trends on SMA usage
- Develop recommendations for how CPGs can best structure and manage SMA relationships

This study was informed by four main components:

1. A web-based survey of CPG manufacturers
2. In-depth, 60-minute interviews with CPG manufacturers, retailers and SMAs
3. Detailed case studies exploring CPGs that recently experienced a change in their SMA usage
4. Bain experience and research on industry trends

RETAIL SELLING AND MERCHANDISING OUTSOURCING

How a CPG fights the war in the store is changing—and SMAs can be an effective way to address this new environment.

- First, the opportunity to 'upsell' in-store—never a uniform practice—is increasingly varied by retailer. Sophisticated CPGs have an opportunity to deploy resources in a customized, ROI-based way to take advantage of these retailer differences.
- Localization also has implications at retail. Geographic and seasonal flexibility—being able to flex a retail workforce up and down, for example—is valuable, and store-level information is ever more critical.
- Finally, the recent economic downturn means that pressure to reduce system-wide costs will continue.

The traditional SMA usage criteria went like this: "*Outsourcing retail is straightforward—the same model works for all retailers and categories.*" In other words, CPG firms commonly viewed retail outsourcing as a one-size-fits-all decision—with most CPGs assuming that the same model generally works for all retailers and categories.

However, progressive CPGs are innovating *how* they use SMAs at retail, considering:

- When to use syndicated versus dedicated versus hybrid ('shared responsibility') versus direct teams
- Whether to customize their level of retail service based on customer type, category, and time of year

And the largest CPGs are increasingly rethinking how they deploy direct teams versus SMA support, often relying on sophisticated return on investment (ROI) calculations.

CPGs need to ask several critical questions about their retail outsourcing:

Does my outsourcing strategy **fit my company goals**?

Could I **reduce my costs**?

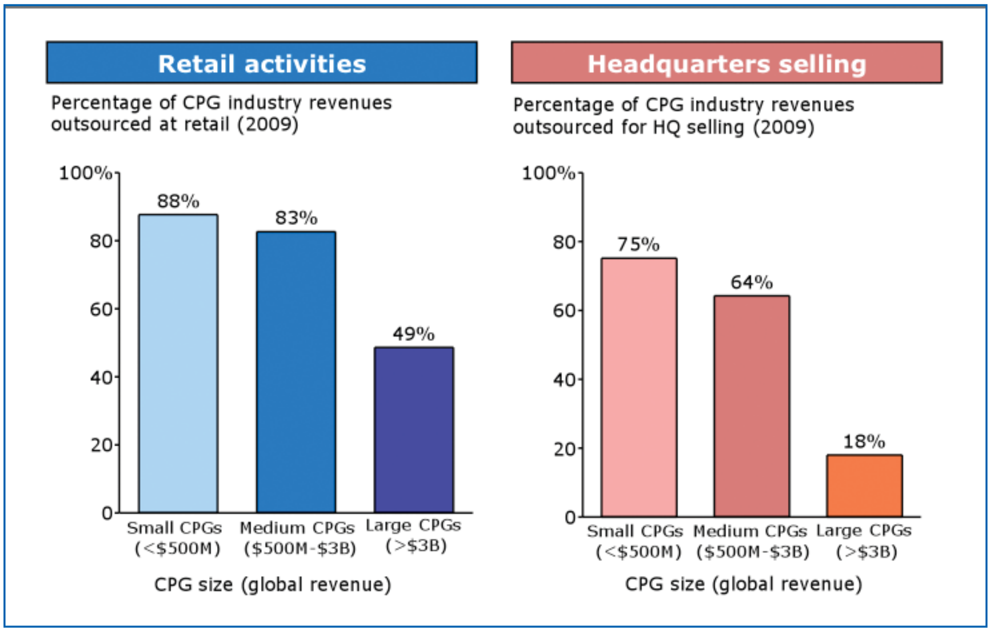
Am I appropriately **customizing my approach with strategic versus non-strategic customers**?

Prevalence and Rationale

Almost 90 percent of CPGs use SMAs for retail support in some form today. As the figures below show, a significant portion of CPG industry revenue is handled by SMAs, and satisfaction is generally high.

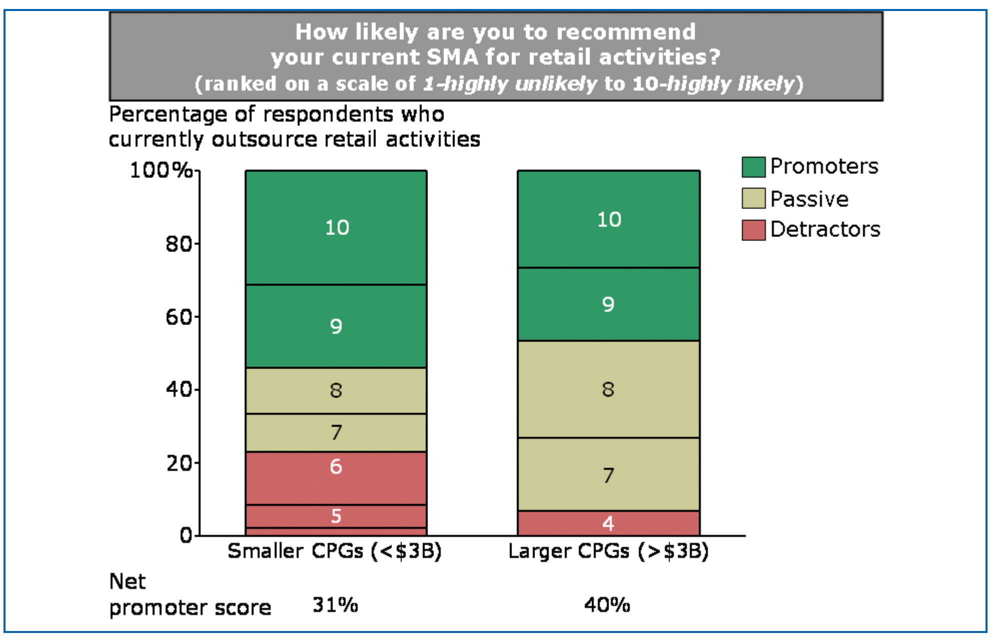
RETAIL SELLING AND MERCHANDISING OUTSOURCING (cont.)

Prevalence of Outsourcing Today



Source: Bain Outsourcing Survey (2009). Small N=12, Medium N=14, Large N=11

Satisfaction with SMA Performance at Retail



Source: Bain Outsourcing Survey (2009). N=34

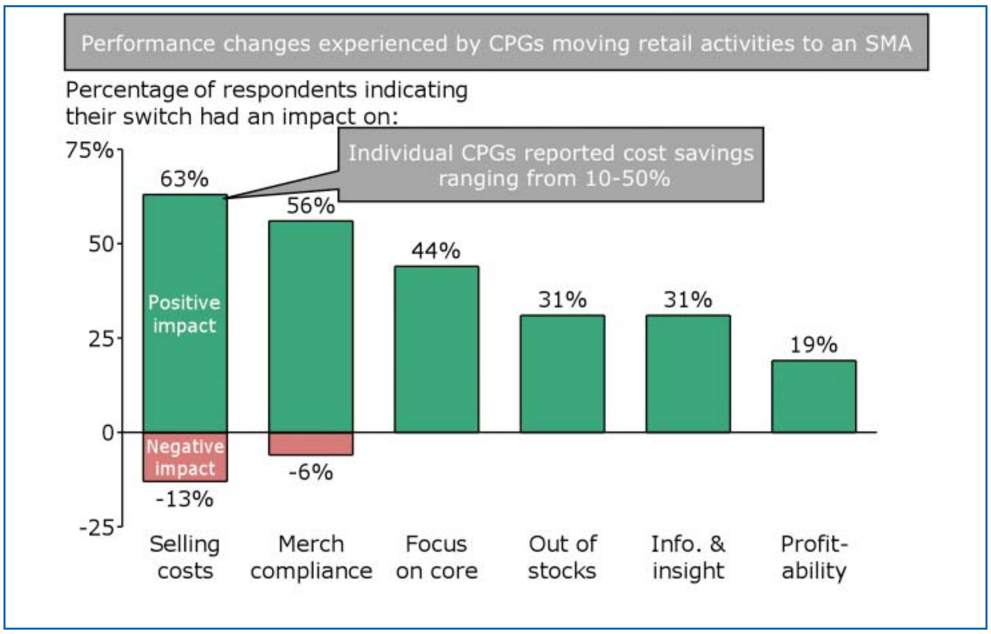
RETAIL SELLING AND MERCHANDISING OUTSOURCING (cont.)

For most companies, the benefits of retail outsourcing are already clear. Outsourcing at retail enables CPGs to take advantage of the efficiency of a shared labor force, achieve extensive cross-country coverage, maintain the flexibility to adjust to fluctuations in demand, and access leading technology.

> **Efficiency:** "*Sharing labor with five other manufacturers just makes sense—economies of scale are obvious*." The majority of CPGs believe that SMAs are the lower-cost provider for retail activities, estimating that **using an SMA costs 23 percent less than employing a direct sales force, on average**.
>
> **Effectiveness:** Perspectives on relative effectiveness vary more widely. Large CPGs believe that a direct sales force can be more effective at retail activities, while about half of smaller CPGs share that opinion.

Another method of evaluating the impact of outsourcing is to review the business performance of CPGs that have increased their use of outsourcing at retail within the last several years, CPG firms that we call 'switchers'. The below figure summarizes the performance changes retail SMA 'switchers' have experienced.

Performance Changes Experienced By CPGs Moving Retail Activities to an SMA



Source: Bain Outsourcing Survey (2009). N=16 'switchers'

The full report provides more detail and examples on the prevalence, advantages, and disadvantages of outsourcing.

RETAIL SELLING AND MERCHANDISING OUTSOURCING (cont.)

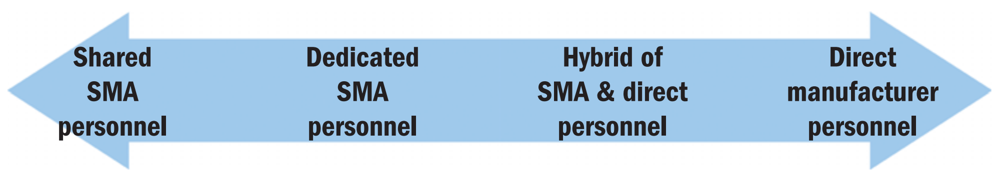
Choice of Model for Retail Activities

For the majority of CPGs, the decision of *whether* or not to outsource retail activities is a straightforward one. Instead, the key decision at retail is *how* to partner with SMAs.

CPGs assessing their retail strategy face three critical questions when deciding how to best employ SMA resources at retail:

1. How should retail teams be structured?
2. Which activities should an SMA handle, if both SMAs and direct staff are being used?
3. Should some customers be treated differently than others?

Below are rules of thumb for when to consider different team structures. Overall, a CPG or category with more opportunities to drive top-line results in-store can better afford dedicated or direct resources.



	Shared SMA personnel	Dedicated SMA personnel	Hybrid of SMA & direct personnel	Direct manufacturer personnel
Rules of thumb for when to use these team structures:	• CPG has lower scale per store • Products in slower-growth categories • SMA carries limited competitive products	• CPG is fighting a 'war in the store' • Products in higher-growth categories • Products requiring high-intensity merchandising	• CPG *can* drive some top-line growth at retail • But SMA more cost effective for most retail maintenance activities	• CPG has high scale per store • Products in DSD categories

For example, a $500 million CPG in a competitive, growing, refrigerated category uses all dedicated teams to drive top-line growth. And a $2 billion CPG in the baking aisle uses dedicated teams in some markets—where it believes the most upside opportunity exists—and uses shared teams in other markets. Many other CPGs use the traditional syndicated model as it most efficiently meets their needs.

RETAIL SELLING AND MERCHANDISING OUTSOURCING (cont.)

Rules of thumb:

One visit frequency for all customers (e.g., 1x/month	Visit frequency tiered by customer type	Visit frequency & intensity varies by customer, category, season
• Smallest CPGs • CPGs with a homogeneous customer base	• Products with limited upside opportunities at retail • Products which require simple shelf maintenance	• Customer upside opportunities differ significantly • Highly seasonal products • Highly promoted products

For smaller CPGs or those with a homogenous customer base, it is likely that the optimal retail strategy is to serve all customers at the same frequency, or visit larger retailers more often based on their weekly sales.

The most sophisticated approach—and one that more CPGs could profitably explore—differentiates treatment based on specific customer opportunities, seasonal demand fluctuations, and promotional opportunities. For example:

- One CPG told us it spends more time in stores where it has an opportunity to, for instance, convince a store manager to place a spice display next to the meat counter.
- Another CPG changes the frequency at which it visits each store during specific holidays—for example, it visits stores twice as often to promote tuna during Lent.

The full report expands upon these rules of thumb through more in-depth discussions and case studies. In summary, leading CPGs are innovating with creative structures and pilots to achieve the best ROI possible for their field labor.

HEADQUARTERS SELLING OUTSOURCING

A CPG's approach to headquarters selling has never been more important. Over the past four years, the largest five grocery/mass retailers have consolidated—increasing their share from 48 percent to 61 percent of the market—and are using their strength to demand more of CPG suppliers. Retailers are raising the bar on insights, pricing is more arduous, and private label is blurring the line between customer and competitor. CPGs must find a way to win with their most valuable customers, which often requires greater focus.

Traditional practice can be summarized as: "*HQ selling to strategic customers should never be outsourced.*"

However, leading CPG firms have found that selling to strategic customers requires more scrutiny than ever before. Leading outsourcing users are highly customizing how they treat headquarters selling, with the following practices. They:

- Limit the number of strategic customers to 5–8
- Create clear goals for each strategic customer or channel
- Focus all in-house resources tightly *on the most valuable activities* at *the most valuable customers*

As these firms have discovered, outsourcing headquarters need not be an all-or-nothing proposition. Indeed, shared-responsibility, or hybrid models, can be an effective way to involve an SMA in strategic customer selling.

Based on these findings, CPGs should ponder several critical questions about their HQ outsourcing:

Am I devoting **sufficient attention** to my strategic customers —on the **activities they value**?

How well am I positioned to handle retailers' **localization, reporting, and support requirements**?

Could I **reduce my costs**?

Prevalence and Rationale

Headquarters outsourcing is highly correlated with company size, with smaller CPGs relying most heavily on SMA support. Smaller companies see more benefit in an SMA's retailer access, while larger companies perceive direct sales teams to be more effective, and outsource primarily for efficiency reasons. An SMA often has scale with a given retailer well above the scale of an individual CPG. This scale can translate into benefits in both expertise and efficiency.

The following case study provides an example of the favorable results possible from transitioning headquarters work to an SMA:

HEADQUARTERS SELLING OUTSOURCING (cont.)

CPG Headquarters Switcher Case Study

Shift in SMA usage

- <$500M sales in baking category

Goals:

- Drive increased coverage
- Increase profitability through distribution of higher margin items

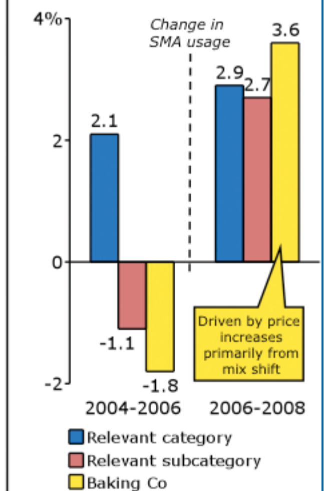
- Shifted all HQ accounts from direct to SMA-served, in a hybrid model

Keys to success

- Strong SMA presence in category
- Joint HQ selling to maintain connection to customers: *"We go on 80% of HQ calls…we are still the expert."*
- Active SMA management
- Use of SMA data /insights: *"They showed us how data-driven selling works."*

Observed impact

Annual growth in FDMx sales



Treatment of Strategic Customers

How CPGs should approach their strategic customers is *the* critical headquarters outsourcing question.

All CPGs want to maintain the strongest possible relationships with their strategic customers. However, beyond top-to-top relationships, CPG size should dictate the specific division of labor between a direct sales force and an SMA:

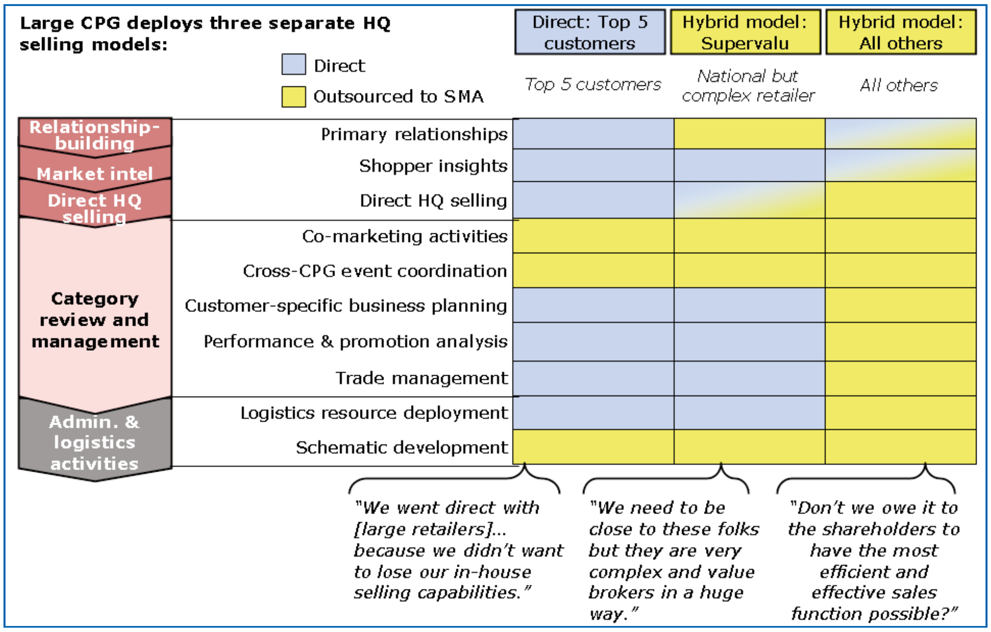
- Given their scale, *small and mid-sized* CPGs should consider outsourcing the majority of headquarters selling work to an SMA, with direct personnel participating in key customer meetings. This model allows CPGs to leverage the scale and capabilities of an SMA without sacrificing the personal headquarters relationship.
- Two elements should dictate which specific activities a *larger* CPG keeps in-house: (1) the impact the activity has on business results; and (2) the cost and complexity of the activity.

Leading CPGs are already navigating these headquarters outsourcing decisions on a customer-specific basis. In one example we studied, a $3 billion-plus CPG considers the complexity of a particular account and what resources an SMA already has in place there. A given customer may have (for example) 65 different contract groups, thousands of store-specific schematics, or 57 different planning groups. If an SMA knows those processes and people well, the CPG decides to leverage the SMA's team rather than allocate five direct resources to that account.

One large CPG deploys three separate HQ selling models, depending on what customer they are serving, as the figure below shows:

HEADQUARTERS SELLING OUTSOURCING (cont.)

Case Study: Sharing Responsibility at Strategic Customers



SMA–CPG RELATIONSHIPS

Many CPGs have historically viewed SMAs as a vendor not as a strategic partner. However, how a CPG structures and manages its relationship with an SMA has a significant effect on their results. Two peer CPGs may use SMAs for exactly the same functions but achieve disparate results because of differences in their operating models.

An effective SMA–CPG relationship is successful on five key dimensions: structure, priorities, roles, processes and people. A CPG's scale may influence how much they rely on any given dimension; some rely more on data-based elements, and some are more biased towards relationships.

Elements of a Successful CPG–SMA Relationship

	Goals
Structure	• Internal team structured to achieve right balance between cost savings and active SMA management
Priorities	• Shared vision of and alignment around CPG's priorities • Variable compensation where appropriate
Roles	• Clear division of labor between SMA and direct team • Alignment at multiple levels of the organization
Process	• Investment in active management • Sufficient interaction to ensure accountability and transparency
People	• Common viewpoint on level of collaboration • Right people in the right roles, with a cultural fit

In our experience, **CPGs that view their SMA as part of their organization are likely to derive greater benefits from the relationship.** As one CPG manager stated, "They're an extension of us—we're all part of one team." Indeed, many CPGs have significant control over the individuals working for the SMA on their behalf.

CONCLUSION

CPGs that have not revisited their outsourcing strategy in recent years most likely are leaving money on the table. The following questions may help spur a reexamination:

- **Am I devoting sufficient attention to selling to my strategic customers**—and excelling in the areas that they value? Could I better deploy SMA resources to help me focus on my core capabilities and core customers, or to help me lower costs?
- **Does the cost of my retail labor force match the results it generates?** Do I know what activities at retail—at which retailers—are most valuable, and am I differentially focusing my retail attention there?
- **Is my existing SMA relationship structured in a way that maximizes value?** (How do I better partner with SMAs? Is the division of labor clear, and are guidelines explicit?)

To aid in their decision-making, CPGs can work through the following steps in each area:

RETAIL	HQ	OPERATING MODEL
• Become **familiar with all potential models** at retail • **Apply 'rules of thumb'** to determine best model for company/category • Calculate **true cost difference** between SMA models and direct service • **Quantify benefit** of different models through pilots • Evaluate **extent to which in-store upsell opportunities differ** by retailer • Determine whether **sufficient resources are deployed against future winning** retailers • Determine any **information gaps** today	• **Review current customer segmentation** strategy and criteria • Determine relative value of each customer in portfolio—and **align selling effort commensurately** • **Codify complexity-to-serve** for each top retailer; determine specific requirements • Compare **internal vs. SMA capabilities** at each customer • For non-strategic customers: Ensure clear economic **rationale for any remaining in-house activities** • For strategic customers: Perform **economic analysis on each admin. activity**—who can do it more cheaply?	• Revisit **size and structure, and talent level of internal SMA-management team and SMA customer-facing staff** • Ensure performance **scorecard is sufficiently robust** • Evaluate greater use of **pay-for-performance** incentives • Implement **guidelines for handling tricky situations** (competitors, share of time, HR concerns) • Begin involving SMA in **longer-term planning and goal-setting**

The full study further describes the advantages to CPGs in optimizing their outsourcing strategy, provides 'rules of thumb' and model practices, and shares multiple case studies.

Research Participants

The following companies assisted the Bain & Company team by completing surveys and/or supplying personal interviews:

4C Foods Corp.	Hormel Foods Corp.
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Acosta	Johnson, O'Hare
Advantage Sales and Marketing	Kellogg Company
American Pop Corn Company	Kimberly Clark
B&G Foods	Kraft Foods
Basic American Foods	Land O'Lakes
Birds Eye Foods	Mars
Bush Brothers & Company	McCain Foods USA
C&S Wholesale Grocers	McCormick & Co
Campbell Soup Company	Melitta USA
Clorox Company	Method Products
Coca Cola Limited	Morton Salt
Coca Cola North America	Musco Family Olive Co.
Conagra Foods	Newell Rubbermaid
Contessa Premium Foods	Nice-Pak Products
Continental Mills	Nonni's Food Company
Crossmark	Pepsi Co (Quaker/Gatorade)
Dannon Company	Pharmavite, LLC
Del Monte Foods	Pierre Foods
Dial Corporation	Pinnacle Foods Group
Diamond Foods	Roundy's Supermarkets
Dominex Eggplant	Sara Lee Corporation
Folgers Coffee	SC Johnson
Food Lion	Schering-Plough Consumer Health Care
Furmano Foods	SellEthics Marketing Group
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The Association of Food, Beverage
and Consumer Products Companies

The **Grocery Manufacturers Association (GMA)** represents the world's leading food, beverage and consumer products companies. The association promotes sound public policy, champions initiatives that increase productivity and growth and helps to protect the safety and security of the food supply through scientific excellence. The GMA board of directors is comprised of chief executive officers from the Association's member companies. The $2.1 trillion food, beverage and consumer packaged goods industry employs 14 million workers, and contributes over $1 trillion in added value to the nation's economy. For more information, visit the GMA website at **www.gmaonline.org**.

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