Maximizing the Impact of Outsourcing:
How CPGs Can Best Use Sales and Marketing Agencies
in a Changing Environment
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### APPENDIX 1: Research Methodology

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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
- SMA capabilities have been improving dramatically

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.

We have organized our findings into three categories:

- **Retail selling and merchandising**
  *Key finding:* Progressive CPGs—even the largest companies—are working with SMAs to **tailor retail coverage** for each retailer, season, and category.

- **Headquarters selling**
  *Key finding:* Successful CPGs **focus direct attention on fewer strategic customers** (<5-8), and many **use SMAs in support roles even with top customers.**

- **The SMA–CPG relationship**
  *Key finding:* How an SMA–CPG relationship is structured and managed matters—**active and ongoing management** drives differential results.

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

This study is based on both primary research with CPGs (a quantitative survey and numerous interviews) and on Bain & Company’s experience with CPG and retail industry trends.
Section 1—INTRODUCTION AND OVERVIEW

The traditional view of how to use SMAs is simple: Outsource retail activities where you're subscale, but keep strategic customer headquarters selling in-house—especially the larger you are. Yet that view no longer applies—companies that get the most out of their SMA relationships are highly sophisticated in their outsourcing decision-making. Those that subscribe to the traditional view are leaving money on the table.

CPGs can start by taking a closer look at commonly held viewpoints in three areas:

<table>
<thead>
<tr>
<th>Traditional View</th>
<th>New Findings</th>
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<tbody>
<tr>
<td>Outsourcing retail is straightforward—if you are subscale, you should use an SMA</td>
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</tr>
<tr>
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The Environment Is Changing... Outsourcing Decisions Should Be Revisited

The changing environment is requiring CPGs to fundamentally re-think their go-to-market models and core capabilities.

Trends Affecting Headquarters Selling

In this landscape, a CPG’s approach to headquarters (HQ) 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.

Retailers are also scrambling to differentiate from one another to survive. Many retailers therefore expect customized products, shelf sets and promotions—and require CPGs to translate consumer insights into localized plans. Access to local information is thus critical for CPGs of all sizes—a small CPG without store-level point-of-sale data is at a significant disadvantage. Lastly, the corporate offices of some retailers are exerting more control over in-store activities.
Each of these trends has implications for SMA usage:

- **Given retailer consolidation**, CPGs must be much more disciplined about focusing their internal resources where they will have the greatest impact—and look to outsource all other customers and activities.

- **Retailer differentiation and localization** will translate into more work at headquarters; CPGs must determine how to handle that increased workload (internally or with outside help).

- The **increased control exerted by some retailers’ headquarters** raises the stakes of headquarters interaction—having the best access and relationships possible is essential.

### Trends Affecting In-Store (Retail) Activities

How a CPG fights the war in the store is changing.

First, the opportunity to ‘upsell’ in-store—never a uniform practice—is increasingly varied by retailer. Five years ago, store managers had more control over both promotions and incremental purchases than they do now. Today, some retailers’ headquarters exert tight control over almost every local decision, while others continue to provide store managers with leeway. 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 current economic downturn means that pressure to reduce system-wide costs will continue. System-wide supply chain and labor costs will be scrutinized more closely. And some retailers may insist on warehouse distribution (versus direct store delivery or DSD), limit in-store labor investments, and eliminate unproductive SKUs. All of this means that CPGs face more retailer-mandated work (e.g., mandatory home store reset charges) squeezing out higher value-added activities.

This evolving retail landscape has significant implications for SMA usage:

- CPGs will need to develop **customized service levels** to meet the different profiles of each retailer. In developing these solutions, they will have to weigh the full spectrum of retail models—direct teams, shared SMA resources, and dedicated SMA resources.

- **Localization** will require greater flexibility and more local information, both of which SMAs may be better able to provide than a direct sales force. The reasons: SMAs have greater flexibility given their shared labor pool, and bring additional information through their data/technology investments and their local store manager relationships.

- The focus on **system-wide costs** will continue to pressure CPGs to seek lower-cost solutions. Since SMAs have the ability to spread costs over multiple brands and categories, they should be considered as both a lower cost and potentially more effective retail solution.
Changes in SMA Capabilities

SMA capabilities have been improving dramatically. Indeed, the SMA of today is a vastly different entity than the perceived food broker of the past. SMAs have become more sophisticated in both their capabilities (technology, people, channels) and their approach to market (service and pricing models).

The SMA industry has invested heavily in technology, in several areas: 1) access to data (purchasing store-level scanner data for most categories); 2) data collection (via handhelds carried by in-store reps); and 3) data analysis (by specialized analysts at SMAs’ headquarters). SMAs’ enhanced technology provides two distinct benefits for CPGs: 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, particularly those involved in headquarters selling, 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 by permanently locating personnel in a retailer’s headquarters city.

Although SMAs have traditionally focused on grocery and mass retailers, they are beginning to develop new capabilities in other channels, particularly at the headquarters level. For instance, SMAs are increasingly involved in selling into the convenience-store channel, and certain SMAs have strong relationships at some drug retailers. At retail, SMAs can play specialized roles in, for example, auditing in the club channel, or supporting merchandising in home improvement stores.

SMAs 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.

Finally, pricing has moved beyond solely flat commissions and now incorporates more pay-for-performance elements and pay-for-activity options.

These changes in SMA capabilities reinforce the call for CPGs to revisit their outsourcing decisions.

Three Dimensions Matter Most in Outsourcing Decision-Making

Outsourcing decisions should be framed around three primary dimensions, as illustrated in Figure 1.1:

- Company scale
- Selling activity (retail or headquarters)
- Customer type (strategic vs. non-strategic)

Let’s examine each in detail:

Company size is the first important dimension, as the relative effectiveness and efficiency of an SMA compared with a direct sales force are both highly scale-dependent. For companies that play in very distinct categories, scale within a given category may be the most relevant metric.
Section 1—INTRODUCTION AND OVERVIEW

**Type of selling activity** is the second dimension. These decisions should be separated—a CPG can pursue different outsourcing strategies at retail versus at headquarters. At retail, **product category** is a relevant secondary factor. Some categories are inherently not good candidates for SMA usage—primarily DSD categories. However, for categories that are well served by SMAs, category dynamics will affect whether and how a CPG decides to use SMAs at retail.

**Customer type** is the third dimension. Outsourcing decisions should be made separately for strategic (large or high-opportunity customers) versus non-strategic customers or channels.

*Figure 1.2*, below, illustrates outsourcing use today by company size and activity.

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**Figure 1.1: Three Primary Dimensions of Outsourcing Decision-Making**

CPG Scale
- Smaller
- Larger

Customer Type
- Strategic
- Non-strategic

Sales Activity
- Retail
- Headquarters

**Figure 1.2: Prevalence of Outsourcing Today**

*Source: Bain Outsourcing Survey (2009). Small N=12, Medium N=14, Large N=11*
Perhaps surprising to some, more than half of CPG industry revenues are handled by SMAs at both headquarters and retail. Outsourcing is also related to company size, as smaller CPGs are more likely to outsource. Among larger (>$3 billion global revenue) CPGs, approximately 50 percent of industry revenues are outsourced at retail, and approximately 20 percent are outsourced at headquarters.

Significantly, the majority of outsourcing users say they are satisfied: some 80 percent of outsourcers indicate they are ‘likely’ or ‘highly likely’ to recommend their SMA, though some CPGs see room to improve.

**Summary of Recommendations**

With a rising tide of SMA usage and satisfaction, CPGs must determine what role SMAs could play in today’s operations to drive efficiency, effectiveness and focus.

**Summary of Retail Outsourcing Findings**

To repeat, 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? Can I reduce my costs? Am I appropriately customizing my approach with strategic versus non-strategic customers?

**Summary of Headquarters Selling Outsourcing Findings**

Traditional practice: “HQ selling to strategic customers should never be outsourced.”

As headquarters selling becomes both more important and more complex, a common response has been to keep all activity under internal control—but that may not be the right answer, for both effectiveness and efficiency reasons.

Treatment of non-strategic customers is relatively straightforward—most CPGs outsource to get the best retailer access (for smaller CPGs) or to lower costs (for larger CPGs).

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? Can I reduce my costs?

Summary of SMA–CPG Relationship and Operating Model Findings

Traditional practice: “Outsource it and forget about it.” Many CPGs have historically viewed an SMA as a vendor, or a necessary middleman, not as a strategic partner. However, how a CPG structures and manages its relationship with an SMA has a significant impact on results.

CPGs with model SMA relationships are more satisfied than their peers and rely on both data and relationship-based elements to enable a mutually beneficial partnership.

An effective SMA–CPG relationship has the following characteristics:

• The right structure
• Aligned priorities
• Clear role definition
• Effective processes
• The right people

A CPG’s scale may influence how much it relies on any given dimension. But overall, more actively managing an SMA partnership typically pays off in business performance.

These findings clearly reveal the advantages to CPGs in optimizing their outsourcing strategy. How? The remainder of this study will provide ‘rules of thumb’ and model practices.

These recommendations are based upon both primary research and Bain & Company’s experience with CPG and retail industry trends. Primary research captured both quantitative and qualitative information, through a web-based CPG survey (n=42) and in-depth interviews with CPG manufacturers, retailers and SMAs (n=29).

(Please see Appendix 1 for further information on research methodology).
Does my retail outsourcing strategy reflect my company and category goals?

Could I reduce my costs by outsourcing more or by changing models? (And can I quantify the ROI of my direct staff?)

Am I appropriately customizing my approach to strategic vs. non-strategic customers?

Am I getting the most out of store-level information?

The above questions resonate in today’s rapidly changing retail environment. Leading CPGs are innovating in how they use SMAs at retail, carefully considering:

- When to use syndicated versus dedicated or hybrid or 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 ROI calculations.

**Definition of Retail Activities**

Retail activities, in this study, are defined as the work done at the local store level, including:

**Retailer support and maintenance activities**
- Continuity work (activity that occurs on an ongoing basis), including shelf maintenance, void management, and out-of-stock management
- Reset work (more project-based), including partial shelf resets and assisting retailers in remodels
- New item placement

**Retail selling and promotion activities**
- Promotional compliance tracking
- Local demand generation
- Sales planning for individual stores
- Trade promotion management

**Prevalence of Retail Outsourcing**

Most CPGs outsource their retail activities today, citing the efficiency of a shared labor pool, maximum flexibility, and access to technology. In fact, almost 90 percent of CPGs use SMAs for retail support in some form. Consequently, a large portion of the industry’s revenues, customers, and brands are handled by SMAs.
Section 2—RETAIL OUTSOURCING LEADING PRACTICES AND TRENDS

Retail Outsourcing Prevalence by Company Size

Retail outsourcing is correlated to company size, with smaller CPGs relying on outsourcing more extensively than larger CPGs, as indicated in Figure 2.1.

Figure 2.1: Retail Outsourcing Prevalence by Company Size

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

While outsourcing prevalence is related to CPG size, individual CPGs often pursue very different outsourcing strategies (see Figure 2.2 for a plot of individual company behaviors).

Figure 2.2 reveals several trends:

- Most CPGs under ~$5B (global revenue) outsource most of their retail activity, due to the requirements of their limited scale.

- CPGs with $5–15B in revenue exhibit more variation in how much retail activity they outsource:
  - Some differences are due to channel: CPGs more reliant on non-grocery channels may use SMAs less (and/or have less retail support from any source).
  - Some differences are due to category: CPGs in highly dynamic or highly promoted categories may be more willing to invest in the higher cost of a direct sales force.
  - And some differences are simply due to a CPG’s historical approach to outsourcing—tradition can play a role in a CPG’s outsourcing strategy today.

- Finally, the largest CPGs (>20B) are typically at sufficient scale to use direct teams, but may choose to pursue an outsourcing strategy nonetheless.
Section 2—RETAIL OUTSOURCING LEADING PRACTICES AND TRENDS

Interestingly, CPGs do not typically handle retail activities differently based on whether a customer is strategic or not, as seen in Figure 2.3. A CPG’s decision to use SMAs or a direct team at retail typically applies to all customers (at least in grocery and mass), across the board.

However, the most sophisticated CPGs do differentiate their retail service levels by customer type; this approach will be further discussed in a subsequent section.

**Figure 2.3: Retail Outsourcing Prevalence by Customer Type**

Source: Bain Outsourcing Survey (2009). Small N=12, Medium N=15, Large N=8
Value of Retail Outsourcing

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.

Satisfaction with SMA Performance at Retail

CPGs tend to be highly satisfied with SMA performance at retail, as measured by the Net Promoter Score™, a Bain loyalty measure highly correlated with satisfaction. (The Net Promoter Score™ is defined as the percent of promoters (9 or 10 on a scale of 0–10) minus the percent of detractors (6 or below)). SMA-users of all sizes indicated a high likelihood to recommend their SMA to peers or colleagues.

Representative comments from satisfied CPGs include:

“SMAs are great to use to exploit new opportunities without having to add capital and headcount.”

“They’re level of professionalism, training/development and technology is equal to or better than most manufacturers today...a huge jump from the past.”

Some CPGs are less satisfied with SMAs, however, typically citing the difficulty of ‘getting their fair share of time’ and the need to ‘keep on top of them.’ Yet many CPGs have overcome these issues by employing the partnership practices outlined in Section 4.
Benefits of Outsourcing Retail Activities

Overall, CPGs believe that SMA retail support provides multiple benefits, as shown in Figure 2.5.

Figure 2.5: Benefits of Outsourcing Retail Activities

![Bar chart showing SMA users' top reasons for outsourcing retail activities.](image)

**Source:** Bain Outsourcing Survey (2009). N=35

Figure 2.6 shows CPGs’ perceptions regarding the relative cost and effectiveness of SMAs versus internal teams. Typically, CPGs choose to outsource at retail because the cost/benefit tradeoff comes down in favor of an SMA.

Figure 2.6: SMA versus Internal Teams: Cost and Effectiveness Comparison

<table>
<thead>
<tr>
<th>Percentage of respondents citing cost advantage of SMA vs. direct sales force</th>
<th>Percentage of respondents citing effectiveness advantage of SMA vs. direct sales force</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small and Medium (&lt;$3B)</td>
<td>Large (&gt;=$3B)</td>
</tr>
<tr>
<td>SMA</td>
<td>Direct sales force</td>
</tr>
</tbody>
</table>

**Source:** Bain Outsourcing Survey (2009). Small and Medium N=30, Large N=12
Relative Efficiency of Outsourcing Retail Activities

“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. For example, one $13 billion CPG said it “couldn’t make the math pay out” to maintain a direct sales force at retail. Another $10 billion CPG asserted, “Only the top three or four CPGs in the country can afford to go direct.”

The elements of greater cost efficiency for SMAs include:

- Scale in a store: Minimizes travel time, maximizes in-store time
- Scale in a geography: Enables efficiencies in training, recruiting and other personnel management
- Expertise in retail personnel management: SMA can focus on core competencies in HR, recruiting, travel and expense and other aspects of personnel management
- Technology: Enables efficiencies in in-store operations, communication and routing/travel logistics

On average, our research participants estimated that using an SMA costs 23 percent less than employing a direct sales force.

However, some large CPGs have sufficient volume to take advantage of the above efficiencies internally, making a direct sales force a cost-comparable alternative.

Effectiveness Benefits of Outsourcing Retail Activities

CPG perspectives on relative effectiveness vary more widely. Those who believe SMAs have an effectiveness advantage attribute their edge to:

- SMAs’ technology and retail tracking tools
- SMAs’ effective processes for handling retail activities
- SMA personnel’s strong relationships with individual store managers

The primary effectiveness benefits of SMAs cited are:

<table>
<thead>
<tr>
<th>Increase market coverage and distribution:</th>
<th>“SMAs allow us to broaden our reach at an affordable cost...I can’t have my own people driving from store to store in the middle of the country.”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase speed to market; facilitate new product introductions:</td>
<td>“If I need to get a product on the shelf for the holidays in a week, an SMA can do that for me...I couldn’t hire enough people to hit that many stores.”</td>
</tr>
<tr>
<td>Better execute promotional and merchandising activities (improve compliance):</td>
<td>“SMAs are my eyes and ears at retail.”</td>
</tr>
<tr>
<td>Access to data and technology (handhelds and store-level scanner data):</td>
<td>“Their IT departments, their technology, and the tools they give their people are great.”</td>
</tr>
</tbody>
</table>
CPGs who believe that direct teams can be more effective cite the benefits of:

- Direct teams' greater attention to one CPG's products
- Ability to hold internal teams accountable for results
- Higher-quality caliber and training of internal personnel

**Evidence of Benefits from Case Studies: CPGs Shifting Use of SMAs at Retail**

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'. Figure 2.7 summarizes the performance changes retail SMA 'switchers' have experienced.

**Figure 2.7: Performance Changes Experienced By CPGs Moving Retail Activities to an SMA**

Performance changes experienced by CPGs moving retail activities to an SMA

Percentage of respondents indicating their switch had an impact on:

- Positive impact: 63%
- Negative impact: -13%
- Individual CPGs reported cost savings ranging from 10-50%

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

The following case studies provide examples of the impact an effective SMA relationship can have on retail execution and overall business performance.
Section 2—RETAIL OUTSOURCING LEADING PRACTICES AND TRENDS

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?

Multiple factors will dictate the optimal model for a given CPG, including:

- Company and category scale
- Category growth rate
- Category merchandising intensity
- Frequency of new product introductions within category
- Seasonality of category
- Competitive environment
- Customer concentration
How Should Retail Teams Be Structured?

CPGs must determine the division of labor at retail and how they want to structure their team(s).

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.

Let’s look at each:

**Shared SMA Personnel: Syndicated Teams**

One option is to employ syndicated or shared SMA teams, which serve multiple CPGs during a store visit. This is the most widely used model, as there are cost advantages to be gained from an SMA’s scale.

Many CPGs, both large and small, successfully ‘get their fair share of time’ by leveraging data and technology to ensure their priorities at retail are being met.

For example, a $200M CPG prioritizes its key retail tasks and loads them onto handheld devices for the SMA retail personnel to read and complete. The SMA team can likewise confirm completion of the tasks via the handheld devices. Their SMA provides effective manpower and technology to cost-effectively ensure the success of their retail initiatives.

The shared or syndicated model is often beneficial for CPGs that are sub-scale at the store level. The model is also effective with products in categories that are slower growth, require less shelf maintenance, or have more base volume business. Finally, this option is also a good fit for brands with few competitive concerns, because the SMA is serving multiple brands and products simultaneously.

**Dedicated SMA Personnel**

A second option at retail is to maintain dedicated teams, which consist of SMA reps that serve only a particular brand or set of products. Dedicated teams can provide a greater amount of attention, and higher-intensity merchandising, on a given store visit. This model typically requires a tradeoff between visit frequency and intensity; a brand
touched once per week by a shared team may only be touched once per month by a dedicated team.

Dedicated teams can be particularly valuable in highly competitive categories, merchandising-intensive categories (like impulse or ingredient products), for instance, or where category growth requires additional attention. However, dedicated teams are typically more costly than the shared SMA personnel model, meaning that CPGs must determine whether this additional attention at the shelf is worth it.

Dedicated teams typically cost 20 to 25 percent more than syndicated teams, but remain less expensive than managing a direct retail workforce. Many medium CPGs ($500 million–$5 billion) view the dedicated team model as a cost-effective alternative to direct teams.

Additionally, the dedicated model allows CPGs to more easily reward individual SMA representative results at retail through pay-for-performance incentives.

Today, many CPGs use dedicated teams to meet specific business goals. For example:

- A CPG with $500 million in North American sales that is in a competitive, growing, refrigerated category uses all dedicated teams to drive top-line growth
- 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
- A $5 billion beverage CPG in a highly-promoted category uses all dedicated teams to compete with DSD-served competitors

Of course, the optimal retail strategy depends on a specific CPG’s needs and objectives. Figure 2.9 highlights how two CPGs have used dedicated and shared team models at retail to meet different business goals: ‘$2B Baking Co’ was willing to spend more to drive growth, whereas ‘$500M Baking Co’ sought affordable coverage.

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**Figure 2.9: Dedicated and Shared Team Case Studies**

<table>
<thead>
<tr>
<th>Dedicated teams</th>
<th>Shared teams</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goal:</strong> Grow sales: &quot;If a broker can strategically place products – put spices next to meat – we see a huge uptick.&quot;</td>
<td>Basic coverage: &quot;We can’t afford dedicated teams...but we pick our battles and get what we need.”</td>
</tr>
<tr>
<td><strong>Retail model used:</strong> Both shared and dedicated teams</td>
<td>Part of shared SMA teams</td>
</tr>
<tr>
<td>Deploy dedicated teams in stores with greatest opportunity for category development (e.g. private label battle)</td>
<td>Influences SMA reps’ priorities through questions in handheld devices</td>
</tr>
<tr>
<td><strong>Results:</strong> Growth, in a ‘no-growth industry’</td>
<td>Cost-effective retail service</td>
</tr>
<tr>
<td>20% cost savings vs. a direct team</td>
<td></td>
</tr>
</tbody>
</table>
These examples illustrate that either a shared or dedicated team can be successful, although each approach requires active CPG involvement. A dedicated team structure requires coordination to ensure the SMA is focusing on the right product in the right locations to drive growth, whereas a shared-team model requires CPGs to think carefully about how to prioritize store visit activities.

**Hybrid of Direct and SMA Personnel**

A CPG with direct retail support often augments its internal team with SMA resources. This model is frequently used in situations where the CPG sees different value in different activities at retail. Direct personnel might focus on securing increased sales or generating incremental display or promotion opportunities. Lower-cost SMA personnel may be used to support tactical or maintenance activities.

One $5B CPG uses a hybrid model and calculates an ROI for each of its accounts (often at the store level) to determine where to deploy direct staff. For accounts that would be unprofitable to serve directly, an SMA will handle all activities. As the vice president of sales explained: “Our personnel have to be paying their own salaries.”

Another application of the hybrid model is for surge capacity. CPGs can use SMAs to augment teams at critical times of intense activity, such as when a major product launch requires new displays in thousands of stores overnight.

**Direct CPG Personnel**

Finally, some CPGs serve their products at retail through direct teams. To be economically viable, this model requires significant scale within a store, typically across multiple categories. As Figure 2.2 indicates, most CPGs with their own direct retail sales force in grocery have at least $6 billion-plus in global revenue, or $3 billion to $4 billion in North American revenue. The CPGs on the smaller end of this spectrum are typically in dynamic categories where they believe there are significant opportunities to drive incremental sales at retail.

CPGs that use a direct store delivery (DSD) model also employ this structure.

**Which Activities Should the SMA Handle?**

CPGs using a hybrid model must decide which activities SMAs handle as opposed to direct staff—and how much emphasis is placed on different retail activities.

Retail team members continually face tension around how they spend their time in store. Today, at least half of a retail team member’s time is typically dedicated to home store resets, leaving less time for more brand-driven activities.

CPGs can dictate what a SMA does in-store for them. For example, many CPGs enter prioritized questions or tasks into their SMA reps’ handheld devices. As one large CPG executive explained: “I want my SMA reps doing things, not just tracking things—and so I give them tasks, not just questions.”

The following table identifies the set of retail activities an SMA may perform and rules of thumb regarding the factors that determine which model a CPG selects.
Examples of the various models include:

<table>
<thead>
<tr>
<th>Home store reset work only:</th>
<th>Resets and other surge work:</th>
<th>All retail activity on ongoing basis (continuity support):</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Largest categories within largest CPGs</td>
<td>• Products with high seasonality</td>
<td>• Most CPGs and products</td>
</tr>
<tr>
<td>• Smaller (‘tail’) brands of largest direct CPGs</td>
<td></td>
<td>• Smaller (‘tail’) brands of largest direct CPGs</td>
</tr>
</tbody>
</table>

Rules of thumb:

- A $10 billion-plus CPG uses an SMA for resets only; its annual expenditure on resets went from $20 million a year to $7 million by outsourcing this activity
- A $30 billion-plus multi-category CPG used an SMA to achieve 90% ACV (all commodity value) for a new product within two days
- A $5 billion household product CPG outsources 100% of its retail activity: “We couldn’t even come close to matching our go-to-market costs today (using a direct team),” one executive said

Should Some Customers Be Treated Differently Than Others?

Traditionally, all customers, strategic or non-strategic, have been treated the same way at retail, with one standard visit frequency or visit frequency based solely on size. Today, some CPGs are experimenting with more sophisticated, customer-specific models to drive higher returns.

The table below summarizes the range of potential customer approaches at retail.

Rules of thumb:

- Smallest CPGs
- CPGs with a homogeneous customer base
- Products with limited upside opportunities at retail
- Customer upside opportunities differ significantly
- Highly seasonal products
- Highly promoted products

<table>
<thead>
<tr>
<th>One visit frequency for all customers (e.g., 1x/month)</th>
<th>Visit frequency tiered by customer type</th>
<th>Visit frequency &amp; intensity varies by customer, category, season</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Smallest CPGs</td>
<td>• Products with limited upside opportunities at retail</td>
<td>• Highly seasonal products</td>
</tr>
<tr>
<td>• CPGs with a homogeneous customer base</td>
<td>• Products which require simple shelf maintenance</td>
<td>• Highly promoted products</td>
</tr>
</tbody>
</table>

Maximizing the Impact of Outsourcing
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—differentials 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.

One CPG said it believes tailoring its approach at retail provides better returns: “Our approach is based on market and product. We have 18 different brands. We focus on our targeted product in a given market area. Are we at the right price? Can we get secondary location in these stores? Not every store needs the same service.”

*Figure 2.10* compares the customer treatment provided by two $500 million CPGs. The first invests significant energy in working with its SMA and customizing its approach by retailer, with the goal of increasing the ROI of its retail spend. The second used a more standardized approach to quickly put basic retail coverage in place following an acquisition.

In conclusion, CPGs face three important decisions when structuring their retail strategies: team structure, division of labor, and customized treatment of retailers.

The guiding principle is that CPGs must ensure their approach at retail aligns with both their business goals and the capabilities of their SMA.
Largest CPGs: Revisiting Their Retail Outsourcing Decisions

For smaller CPGs, whether to outsource retail is not under debate—their scale requires it. However, many larger (> $5 billion) CPGs are revising their outsourcing decisions, as well, and face a more complicated set of decision criteria. Some larger companies can afford and justify a direct sales force—and others have chosen to outsource all retail activity. Sophisticated CPGs are able to quantify the ROI of their direct sales teams. Below is an overview of the analysis that can assist CPGs in their decision-making.

First, a CPG needs to **correctly compare the cost of a direct force to SMA support**:

1. **Calculate the true internal/direct sales costs by including:**
   - **Direct costs** (hourly rate/salary/benefits)
   - **All ‘hidden’ costs** (recruiting, training, HR, legal, management efforts)
     The ‘hidden’ costs of personnel management are often omitted from this analysis, but shouldn’t be overlooked, as the effort required to manage a large retail sales force can be substantial and expensive.
   - **Efficiency** (in-store time versus drive time and capacity utilization)
     Efficiency calculations should include the capacity utilization of an individual retail team member, across seasons. For example:
     - One CPG observed that each direct team member had 120 percent of one person’s worth of work to do in a given day—and the extra 20 percent was simply not being done. Instead of hiring an additional full-time employee (FTE), they out-sourced retail support for that 20 percent—their ‘tail brands’—to an SMA.
     - Another CPG required double the retail support for their products during the summer and winter holidays. Their calculations revealed that a full-time direct team would be at 50 percent capacity utilization for the remaining seasons.

2. **Understand an SMA’s pricing nuances**
   SMA pricing models have become much more sophisticated than the solely straight, non-negotiable commissions some CPGs may have experienced historically. CPGs weighing outsourcing decisions should have full information on:
   - **Basic commissions**
   - **Pay for performance options**
   - **Discounts based on scale or on bundling with headquarters service**

A large CPG can then estimate the possible **differential benefit of direct retail attention**. The potential ‘return’ of greater effectiveness should be measured by:

   - The potential value of better retail execution, such as lower out-of-stocks and higher promotional and planogram compliance
   - The value of any incremental ‘selling’ activities a direct team can perform, such as selling an additional case of product to a store manager, or convincing the manager to add a display

Calculating the differential benefit of a direct team **directly** is difficult. Instead, pilots and tests may be used to quantify the benefit. Pilots will be discussed in Section 4.
Conclusion:
Critical Questions CPGs Should Ask about Retail Outsourcing

While most CPGs outsource retail activities today, many could achieve better results by taking advantage of new business models.

<table>
<thead>
<tr>
<th>Critical Question</th>
<th>Recommended Next Steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does my retail outsourcing strategy reflect my company and category goals?</td>
<td>• Become familiar with all potential models at retail</td>
</tr>
<tr>
<td></td>
<td>• Apply ‘rules of thumb’ to determine best model for company/category</td>
</tr>
<tr>
<td>Can I reduce my costs?</td>
<td>• Calculate true cost difference between SMA and direct service models</td>
</tr>
<tr>
<td></td>
<td>• Quantify benefit of different models through pilots</td>
</tr>
<tr>
<td>Am I appropriately customizing my approach by retailer?</td>
<td>• Evaluate extent to which in-store up-sell opportunities differ by retailer</td>
</tr>
<tr>
<td></td>
<td>• Determine whether sufficient resources are deployed against future winning retailers</td>
</tr>
<tr>
<td>Am I getting the most out of store-level information?</td>
<td>• Determine any information gaps today, understanding that the technology divide will continue to widen</td>
</tr>
</tbody>
</table>
How should I define my ‘strategic customers’ (and do I have too many)?

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

How well am I positioned to handle retailers’ increasingly complex localization, reporting, and support requirements?

Could I reduce my costs by outsourcing more or by changing models?

A CPG’s approach to headquarters selling has never been more important—and the above questions are likely top-of-mind for most sales organizations. As headquarters selling becomes both more important and more complex, a common response is to keep all activity under internal control—but that may not be the right answer, for both effectiveness and efficiency reasons.

Treatment of non-strategic customers is relatively straightforward—most CPGs outsource to get the best retailer access (for smaller CPGs) or to lower costs (for larger CPGs).

However, leading CPG firms have found that selling to strategic customers requires more scrutiny than ever before. Leading outsourcing users are thus highly customizing how they treat headquarters selling. Outsourcing headquarters selling need not be an either-or proposition. Shared-responsibility, or ‘hybrid’ models, can be an effective way to involve an SMA in strategic customer selling.

Definition of Headquarters Selling Activities

Headquarters selling activities, in this study, are defined as the activities a CPG engages in with the headquarters of a retailer, as described in Figure 3.1.

SMA involvement in headquarters selling typically takes one of two primary forms:

- SMAs own the entire selling process
- SMA and CPG personnel work together in a ‘hybrid’ model, where division of labor is shared

In our experience, the hybrid model is underutilized and could be a key opportunity for many larger CPGs (options for this division of labor are discussed in a subsequent section).
Prevalence of Headquarters Outsourcing

Outsourcing of headquarters selling is less common than outsourcing retail activities, and is more dependent on company size. While more than 85 percent of CPGs outsource some headquarters selling, they often keep more revenue in-house, from their most strategic customers.

Some retailers have strong preferences to deal directly with CPGs (for example, Walmart), resulting in a ‘natural ceiling’ on the percentage of revenues a CPG outsources.

Prevalence of HQ Outsourcing by Company Size

Headquarters outsourcing is highly correlated with company size, with smaller CPGs (<$3 billion) relying most heavily on SMA support (see Figure 3.2). 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.

Prevalence of HQ Outsourcing by Customer Type

CPGs of all sizes are more inclined to outsource selling to their non-strategic customers than to the customers that are core to their business (see Figure 3.3). The distinction is stark for the largest CPGs: only 25 percent of this group outsources headquarters selling to strategic customers.

For example, most companies keep Walmart and the club channel in-house. Larger companies typically also keep their top five to eight strategic customers in-house. Other CPGs keep a more extensive set of customers in-house or maintain direct sales forces for all headquarters activity.
Value of Headquarters Outsourcing

In headquarters sales, SMAs can provide benefits in three primary areas: retailer access, efficiency, and focus. Size matters. An SMA often has scale with a given retailer well above the scale of an individual CPG. For example, a national SMA might represent 25 percent of the ACV at a retailer, while the largest individual CPG might represent...
Section 3—HEADQUARTERS SELLING OUTSOURCING LEADING PRACTICES AND TRENDS

5 to 10 percent of ACV. This scale can translate into benefits in both expertise and efficiency.

**Satisfaction with SMA Performance at Headquarters**

CPGs’ satisfaction with their SMAs’ performance at headquarters differs by customer type (see Figure 3.4). SMA users are highly satisfied with SMAs at non-strategic customers; their Net Promoter Score™ of 35 percent is similar to their level of satisfaction with retail services (35 percent is a high score for a business-to-business relationship). However, some large CPGs are unlikely to recommend outsourcing strategic customer selling. As one $10 billion CPG states, “We weren’t getting our money’s worth in terms of expertise or strategic vision…while we were getting our fair share of time, it wasn’t the highest-quality time.”

**Figure 3.4: Satisfaction with SMA Performance at HQ**

% of respondents who currently use SMA for this customer type

<table>
<thead>
<tr>
<th>Percentage of respondents</th>
<th>how likely are you to recommend your current SMA for HQ activities? (ranked on a scale of 1-highly unlikely to 10-highly likely)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-strategic customers</td>
<td>Promoters: 10, Passive: 9, Detractors: 1</td>
</tr>
<tr>
<td>Strategic customers</td>
<td>Promoters: 10, Passive: 8, Detractors: 5</td>
</tr>
</tbody>
</table>

Source: Bain Outsourcing Survey (2009). Non-strategic customers N=34, Strategic customers N=25

**Benefits of Outsourcing Headquarters Activities**

CPGs’ top reasons for using SMAs in headquarters sales are to achieve greater distribution of their products, reduce costs, and better execute promotional and merchandising activities (see Figure 3.5).
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HEADQUARTERS SELLING OUTSOURCING LEADING PRACTICES AND TRENDS (cont.)

Figure 3.5: Benefits of Outsourcing Headquarters Activities

<table>
<thead>
<tr>
<th>Reason</th>
<th>Small and Medium (&lt;$3B)</th>
<th>Large (&gt;=$3B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve market coverage &amp; distribution</td>
<td>40%</td>
<td>20%</td>
</tr>
<tr>
<td>Reduce sales &amp; marketing costs</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>Increase speed to market</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Better execute promotional &amp; merchandising</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

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

Figure 3.6: SMA versus Internal Teams: Cost and Effectiveness Comparison

<table>
<thead>
<tr>
<th>Provider</th>
<th>Small and Medium (&lt;$3B)</th>
<th>Large (&gt;=$3B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct sales force</td>
<td>80%</td>
<td>60%</td>
</tr>
<tr>
<td>SMA</td>
<td>20%</td>
<td>40%</td>
</tr>
<tr>
<td>No significant difference</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Most CPGs perceive direct teams to have an effectiveness advantage in headquarters selling (see Figure 3.6), but choose to outsource headquarters selling for efficiency reasons.

SMAs often have scale with a particular retailer well above that of an individual CPG, creating potential cost efficiencies. As one head of sales stated, “I couldn’t afford to hire enough direct people to scale an organization my size. We need the scale of a broker organization to effectively call on the industry, even just on the HQ side.”

However, some larger CPGs tend to believe that they can be cost-competitive with SMAs.

As shown in Figure 3.6, CPGs believe that a direct team is more effective than an SMA for HQ selling, citing the benefits of:

- Direct teams’ greater focus and attention on an individual CPG’s brands
- The greater product-specific expertise of a CPG’s direct team

According to one CPG, “If we have our employee that only cares about our brand, he can better represent our brand than an SMA who might have 20 manufacturers in its portfolio and in many cases, competing manufacturers.”

However, many CPGs do outsource headquarters selling, citing the following primary effectiveness benefits:

| Increase market coverage and distribution: | "An up and coming company can grab onto an established network quickly. SMAs bring you customer expertise and allow you to tap into a well-established, well-trained organization."
| Facilitate new product introductions: | "We have new products coming out all the time. Our SMA can help with that."
| Better execute promotional and merchandising activities: | "When they’re setting up a multi-brand promotion, you have the opportunity to participate in that." |

**Case Studies: CPGs Shifting Use of SMAs at Headquarters**

CPGs that have recently changed their headquarters outsourcing strategy provide another way to evaluate the effect of outsourcing. Moves in both directions—new outsourcers or insourcers (‘switchers’)—were included in this analysis.

Unlike switchers at retail, smaller CPGs tend to see different results from HQ outsourcing than larger CPGs. Primary benefits observed by those switching to a new outsourcing arrangement are shown in Figure 3.7.

The following case study (Figure 3.8) provides an example of the favorable results possible from transitioning headquarters work to an SMA:
Section 3—HEADQUARTERS SELLING OUTSOURCING LEADING PRACTICES AND TRENDS

Figure 3.7: Performance Changes Experienced by CPGs Moving Headquarters Activities to an SMA

Performance changes experienced by CPGs moving HQ activities to an SMA

For smaller companies (<$1B)

- Percentage of respondents indicating their switch had an impact on:
  - Sales share: 73%
  - Distribution relations: 55%
  - Customer costs: 45%
  - Selling costs: 45%
  - Info & insight: 36%

For larger companies ($1B+)

- Percentage of respondents indicating their switch had an impact on:
  - Sales share: 63%
  - Distribution relations: 38%
  - Customer costs: 38%

Source: N=11 small ‘switchers’ and N=8 large ‘switchers’

Figure 3.8: 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
  - Change in SMA usage
  - Driven by price increases primarily from mix shift

Maximizing the Impact of Outsourcing
Nevertheless, some larger companies have recently brought some customers back in-house, typically for one of three reasons:

| Cost savings:                                      | • One large CPG had been outsourcing headquarters activities for their tail brands; they folded the brands back into their in-house salesforce with minimal new staff  
|                                                   | • Result: ~29% cost savings |
| Category expertise:                                | • A $10 billion CPG was dissatisfied with the attention and expertise their brands were receiving from their SMA, and brought 95% of their HQ activity back in-house  
|                                                   | • Higher top-line growth versus the rest of the category |
| Capability retention:                              | • One CPG was very happy with the service they were receiving from their SMA at headquarters, but was concerned about the risk exposure, and brought two top customers back-in house to maintain some selling capability  
|                                                   | • Result: Internal team retains selling capabilities |

Clearly, the headquarters outsourcing decision is a difficult one, particularly for larger CPGs. The following section can serve as a general guide for evaluating such decisions.

### Treatment of Strategic Customers

How CPGs should approach their strategic customers is the critical headquarters outsourcing question. The most successful CPGs in the future will have both effective and cost-efficient strategies for ensuring close partnerships with these key customers.

CPGs must evaluate whether and how an SMA should play a role at headquarters with their strategic customers. *Figure 3.9* presents a suggested approach for navigating these decisions.

### Strategic Customer Definition

The first variable to consider is customer value. As a general rule, most CPGs should consider outsourcing all headquarters activities for their non-strategic customers, and be more rigorous in evaluating how to treat strategic customers.

Many CPGs already segment or tier their customers, based on:

- Retailer size
- Complexity and cost-to-serve
- Retailer projected growth
- Channel dynamics
- Opportunity at retailer (upside opportunity)
Figure 3.9: Suggested Headquarters Outsourcing Decision Approach

For example, one multi-billion-dollar CPG segments its customers into four tiers and pursues the following outsourcing strategies:

<table>
<thead>
<tr>
<th>Tier</th>
<th>Percent of revenue</th>
<th>Outsourcing strategy</th>
</tr>
</thead>
</table>
| Tier I: ‘Strategic Customers’ | ~40% (Walmart, club, Kroger, and dollar stores) | • Keep headquarters in-house  
• Outsource all retail activities |
| Tier II: ‘Developmental Customers’ | ~35% (12–15 customers, including large grocery stores, auto, and home hardware channel) | • Outsource all headquarters and retail in grocery, except Publix (where headquarters remains direct)  
• Use other third parties in auto and home hardware |
| Tier III: ‘Regional Customers’ | ~25% (regional grocers) | • Outsource all headquarters and retail |
| Tier IV: All others | <5% | • Tele-network service for headquarters  
• No retail coverage |

However, many CPGs have too many customers they deem ‘strategic.’ Rather, a starting point for the top tier should be five to eight customers, or 60 percent of revenue. CPGs should be able to very clearly explain their rationale for any ‘strategic customers’ beyond that number.
Division of Labor at Strategic Customers

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.

The sales leader of a $500 million CPG explains how the organization is able to maintain its customer relationships despite outsourcing a majority of its HQ work: “It’s mandatory for my regional managers to participate in all key account representations with the SMA at the account. They are in every key strategic meeting…it’s important for us to at least touch base with senior managers at least once a year.”

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.

Impact of Each Activity

Larger CPGs should consider keeping the highest-impact activities in-house, as they may provide an opportunity to differentiate from competition. Figure 3.1 provides a general view on where specific headquarters selling activities fall along this spectrum—but an activity’s effect on business results will vary by retailer, and should be evaluated on a customer-by-customer basis.

One larger CPG executive explains why owning the key activities at strategic customers is critical for his organization: “Our company makes all the big calls, all the strategic stuff, and gets out in the field to make sure this stuff is being executed. Our [SMA] is the arms and legs, makes the monthly promotional calls and does the quarterly planning.”

Complexity of Each Activity

CPGs should have a bias towards outsourcing complex administrative activities. The complexity of an activity is driven by how variable the activity is across a CPG’s customer base. For example, Kroger and Supervalu may have very different planogram requirements, making that activity more complex. In contrast, most retailers may treat deductions management in the same way, reducing the complexity of that activity.

The most complex-to-serve retailers typically have very specific requirements for the following activities:

- Store or cluster-specific planning requirements and schematics
- Technology and analysis (IT system linkages)
- Contract management
- Forecasting and reporting

Treatment of low-complexity, low-impact activities should be resolved through straightforward economic analysis: who can do it more cheaply?

In summary, a CPG can use the decision criteria to determine whether a direct team or an SMA is best positioned to perform an activity for a given customer.
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.

The following case study highlights another example of different shared-responsibility models; this CPG deploys three different models at different top customers:

**Figure 3.10: Case Study: Sharing Responsibility at Strategic Customers**

<table>
<thead>
<tr>
<th>Large CPG deploys three separate HQ selling models:</th>
<th>Direct model</th>
<th>Hybrid model 1</th>
<th>Hybrid model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship building</td>
<td>Direct</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market intel</td>
<td>Shopper insights</td>
<td>Top 5 customers</td>
<td>National but complex retailer</td>
</tr>
<tr>
<td>Direct HQ selling</td>
<td>Direct HQ selling</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Category review and management</td>
<td>Co-marketing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Admin. &amp; logistics activities</td>
<td>Cross-CPG event coordination</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customer-specific business planning</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Performance &amp; promotion analysis</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Trade management</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Logistics resource deployment</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Schematic development</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

“We went direct with Safeway & Kroger... because we didn’t want to lose our in-house selling capabilities.”

“We need to be close to these folks but they are very complex and value brokers in a huge way.”

“Don’t we owe it to the shareholders to have the most efficient and effective sales function possible?”
Conclusion: Critical Questions CPGs Should Ask about Their Headquarters Outsourcing

Most CPGs could benefit by evaluating headquarters outsourcing decisions with much more rigor. The following questions are a starting point:

<table>
<thead>
<tr>
<th>Critical Question</th>
<th>Recommended Next Steps</th>
</tr>
</thead>
</table>
| Do I have too many ‘strategic’ customers? | • Review current customer-segmentation strategy and criteria  
- Starting point for top tier should be top five to eight customers, or 60% of revenue  
- Look closely at rationale for any ‘strategic customers’ beyond that |
| Am I devoting sufficient attention to my strategic customers—on the activities they value? | • Determine relative value of each customer in portfolio—and align selling effort and resources commensurately  
• Set level of investment in each customer:  
  - Customization of product line-up, marketing strategy, pricing, promotional plans  
  - Support functions and shopper insights |
| How well am I positioned to handle retailers’ localization, reporting, and support requirements? | • Codify complexity-to-serve for each top retailer; detail specific requirements  
• Compare internal vs. SMA capabilities at each customer |
| Can I reduce my costs? | • For non-strategic retailers: Ensure clear economic rationale for any remaining in-house activities  
• For strategic customers: Perform economic analysis on each administrative Activity, deciding: Who can do it more cost effectively? |

To summarize, CPGs seeking to improve performance at headquarters must ensure they are placing the appropriate emphasis on their truly strategic customers while cost-effectively meeting the needs of all customers. In many cases, a well-defined partnership with an SMA will enable a CPG to meet these objectives.
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. Figure 4.1 outlines the goals for each dimension.

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

Let’s delve more deeply into how this works in practice:

**Structuring a CPG’s SMA Management Organization**

How a CPG structures its SMA management organization is critical to both achieving economic objectives and developing a productive SMA relationship. To succeed at both, CPGs must balance effective SMA oversight with labor expense. Yet since engaging an SMA often hinges on cost savings, the way a CPG allocates resources to managing its SMA relationship is a much-debated topic.

To get this ratio right, CPGs must answer two key questions:

- How should the internal SMA management team be organized?
- How many resources should be devoted to SMA management?

**How Should the Internal SMA Management Team Be Organized?**

Two common SMA management structural models exist. Both can be effective when managed properly. One model features SMA management integrated with direct sales
resources, while the other keeps SMA management and direct sales teams distinct. These models are summarized in Figure 4.2.

**Figure 4.2: Common SMA Management Organization Structures**

<table>
<thead>
<tr>
<th>Option 1: SMA management integrated with direct sales</th>
<th>Option 2: Two separate sales organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head of Sales</td>
<td>Head of Sales</td>
</tr>
<tr>
<td>South Regional Manager</td>
<td>Head of SMA Management</td>
</tr>
<tr>
<td>Serve direct customers and</td>
<td>Direct Sales Organization</td>
</tr>
<tr>
<td>Manage SMA retail &amp; HQ activity in market</td>
<td></td>
</tr>
<tr>
<td>When to use:</td>
<td>Watch-outs:</td>
</tr>
<tr>
<td>• Presence/needs differ by region</td>
<td>• No single point of accountability for</td>
</tr>
<tr>
<td>• Small/mid-sized CPGs</td>
<td>SMA management</td>
</tr>
<tr>
<td></td>
<td>• Additional oversight needed for national</td>
</tr>
<tr>
<td></td>
<td>accounts</td>
</tr>
</tbody>
</table>

The integrated SMA management model typically features a team of regional managers who are responsible for the oversight of direct resources as well as SMA activities (potentially both at headquarters and retail). For example, one $300 million CPG’s sales organization is composed of eight regional managers, each of whom manages key accounts in his region and oversees SMA activities at retail. This approach is frequently used by smaller CPGs that have differing distribution and strategic needs by geographic market.

In the integrated model, SMA management responsibilities are distributed across a number of regional managers. This can complicate oversight as there is no single point of accountability for SMA performance. The head of sales may inherit this responsibility; however it will be one of many, and it may not get the attention it requires to derive maximum benefit from the relationship. Furthermore, national accounts (which cross multiple regions) do not fit neatly into this model.

The second common structure explicitly separates direct sales and SMA management responsibilities, typically via managers who report to the head of sales. This model requires these two teams to be in close coordination regarding any customers that may be served by one group at retail and another at headquarters. For example, if a CPG serves Walmart direct at headquarters, as is common, but outsources retail activities, that means significant coordination will be required between the Walmart direct sales team lead and the head of SMA management to ensure that the CPG’s initiatives at headquarters are being well-executed at the store level.
This structure is often employed by larger CPGs with significant sales in non-grocery channels (such as club, dollar, convenience) where SMA use is less common. It allows for a closer SMA partnership since there is a specific CPG team held accountable for SMA performance. However, this direct oversight adds a layer of costs and requires coordination between the direct sales and SMA management organizations.

While the above two models are the most common, the largest CPGs sometimes have more complex variations, with separate organizations devoted to 1) SMA retail management, 2) SMA headquarters management and 3) direct sales teams. For example, a large CPG with more than $10 billion in North American sales put this structure in place, because, “Before, managers were pulled in a hundred different ways—we changed to improve everyone’s ability to focus.”

How Many Resources Should Be Devoted to SMA Management?

There is a risk to either model of both over and under-investing in SMA management, which will restrict a CPG from achieving the maximum benefit of outsourcing.

One means of evaluating the efficiency of a CPG’s SMA management structure is by identifying the number of employees currently in place to manage outsourced revenue at retail. For some CPGs these resources are responsible for both some direct selling and SMA management, while others retain personnel for the sole purpose of overseeing SMA activities at retail.

Internal Team Responsible for SMA Management and Some Direct Selling

Figure 4.3 summarizes the range of efficiency for CPGs with direct personnel who are overseeing SMA activities at both headquarters and retail and participating in selling activities for select customers. (Note: this analysis considers revenue and full-time employees (FTEs) for North America only)

Figure 4.3: SMA Management Efficiency for Companies Managing SMA Support at Headquarters and Retail

*Note that in many smaller CPGs, sales personnel are accountable for SMA management in addition to sales responsibilities*
Based on this analysis, SMA oversight efficiency ranges from one to six FTEs per $100 million of revenue outsourced at retail. A typical $500 million CPG that has outsourced retail will have 15 FTEs in its sales organization, participating in both SMA management and direct selling activities. However, this will vary with the size of the CPG, based on the possible scale benefits available in terms of FTEs per revenue outsourced.

For example, both a $150 million and a $500 million CPG may have eight managers overseeing sales if differences in geographic markets, brands, categories or key initiatives necessitate significant attention. Likewise, a $750 million CPG may have as few as five sales FTEs.

**Internal Team Solely Responsible for Retail SMA Management**

A similar analysis can be performed on CPGs that maintain a separate team to oversee SMA performance at retail. For these CPGs, it is possible to maintain a smaller staff to oversee retail activities since they are typically not responsible for any direct selling activities (see Figure 4.4).

In this structure, CPGs employ individuals to oversee as much as $1 billion in outsourced revenue. On average, however, a $5 billion CPG will employ eight to 10 FTEs to oversee SMA activities at retail.

Not surprisingly, only larger CPGs tend to have a dedicated SMA retail management team. In one example, a $1 billion-plus CPG has four senior retail advisors overseeing all of its outsourced retail operations. This example highlights how lean some CPGs feel they can be in regards to SMA oversight.
Aligning Priorities

The next critical component of a mutually beneficial SMA relationship is alignment on the CPG’s key priorities. As one CPG VP of Sales explains, “It’s important to have an arrangement that rewards growth, so that there’s incentive for both organizations to achieve the key performance indicators we’ve set out.”

There are two primary ways CPGs accomplish this today: 1) performance scorecards and 2) pricing models.

Performance Scorecards

To ensure alignment on key priorities, most CPGs use scorecards to drive SMA performance on the most important business metrics.

Having an SMA scorecard in place is common; however their sophistication varies both at headquarters and retail. Figure 4.5 highlights both the basic and more sophisticated elements of SMA performance scorecards at headquarters and retail.

![Figure 4.5: Typical Elements of SMA Performance Scorecards](image)

In each case, more sophisticated metrics provide CPGs with actionable information to gauge SMA performance, as well as the success of achieving priority initiatives. In particular, the more sophisticated metrics at retail take a broader view of product/brand performance, such as shelf-to-growth ratio, and address operational complexities, such as staffing fulfillment, to derive an overall return on investment.

At headquarters, the most sophisticated scorecard users attempt to quantify customer profitability and manage against this metric. Another key consideration may be ongoing access to senior executives. This is not typically captured as part of a metric, per se, but is likely part of an ongoing evaluation by the CPG.
Pricing Models

Another mechanism for ensuring alignment on key priorities is pricing, which may include variable or incentive-based compensation. There are three potential elements of a pricing model; many CPGs employ two or all three simultaneously:

1) Flat commissions
2) Activity-based pricing
3) Performance-based pricing

Approximately half of CPGs (56 percent) that employ an SMA use some form of variable compensation, with 5 to 20 percent of total commissions typically at risk in a given contract.

However, as one CPG executive explains, many manufacturers are still looking for the best way to use incentives or variable pricing to drive superior results with their SMA: “I don’t think the SMA industry has figured out a good upside model. We want to incentivize the person to drive our business.”

The ideal pricing model will vary based on the product category, specific initiatives the CPG is planning to execute, and the specific SMA model they use (specifically, syndicated versus dedicated teams, targeted versus standardized store coverage).

Figure 4.6 identifies three common SMA pricing elements and the benefits and risks of each.

### Figure 4.6: SMA Pricing Elements

<table>
<thead>
<tr>
<th>Potential pricing elements:</th>
<th>Flat commission rates</th>
<th>Pay-for-activity</th>
<th>Pay-for-performance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Simplicity</td>
<td>• Seasonal surges</td>
<td>• Bonus or higher commission rate</td>
</tr>
<tr>
<td></td>
<td>• Consistent costs</td>
<td>• New product introductions</td>
<td>• ~5-20% of payments typically at-risk</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Dedicated teams</td>
<td></td>
</tr>
<tr>
<td>Benefits:</td>
<td></td>
<td>• More perceived accountability</td>
<td>• More aligned incentives</td>
</tr>
<tr>
<td>Risks:</td>
<td>• Lack of transparency: “Am I getting what I pay for?”</td>
<td>• Greater management effort (for CPG)</td>
<td>• Potential for SMAs to staff to base payment only</td>
</tr>
<tr>
<td>‘Rules of thumb’ for use:</td>
<td>• [Typically part of all pricing models]</td>
<td>• CPGs with limited or fluctuating needs</td>
<td>• Potential conflict of interest on syndicated teams</td>
</tr>
<tr>
<td></td>
<td>• Slower-growth categories</td>
<td>• Highly seasonal items</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Infrequently promoted items</td>
<td>• Pioneer brands</td>
<td></td>
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<td></td>
<td></td>
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</tbody>
</table>

Flat commission rates comprise the base pricing model for most CPGs. While flat commission rates are the most simple to manage, CPGs may need to invest more heavily in reporting tools to help them understand the benefits of the service they are receiving.

At headquarters, typical commission rates are based on serving a mix of both low- and high-complexity accounts. Therefore, altering the set of customers being served may affect the average overall rate that an SMA will seek to charge. For example, if a CPG...
Section 4—SMA–CPG RELATIONSHIP AND OPERATING MODEL

( cont.)

determines it will serve the least-complex accounts directly (thereby leaving the SMA to serve the most complex) the SMA may seek a higher average commission rate.

Activity-based pricing is a strong fit for CPGs that encounter varying seasonal demand for their products—or frequently introduce new items—and thus rely on their SMA to provide additional capacity as needed. CPGs often use activity-based pricing to supplement a flat commission pricing approach for work on such specific initiatives. Another common scenario would be outsourcing all of the activities associated with a new or ‘pioneer brand’. However one consideration when evaluating activity-based pricing is that fluctuations in SMA usage likely require additional oversight.

Finally, pay-for-performance models are commonly used to align CPG and SMA incentives through bonus payments or higher commissions. The aim is to meet particular objectives, especially for high growth or competitive categories. However, variable compensation typically accounts for less than 20 percent of total payments (typically closer to 5 percent) and must also be carefully managed in terms of goal setting, staffing and data collection.

Pay-for-performance models can take different forms. Some examples include:

- Bonuses for exceeding retailer or campaign-specific key performance metrics
- Account-specific profit sharing
- Increased SMA commission rates on sales exceeding targets
- Awarding individual SMA representatives with trips or other rewards

Clear Roles and Effective Processes

To maximize SMA relations, CPGs must also create effective processes and establish clear roles. This includes defining how the organizations should interact as well as who within each organization has responsibility for a given activity.

This requires stellar communication between the two organizations on multiple levels, not just among senior executives. As one CPG senior manager stated the case: “Communicating down through execution can be a challenge if you’re not building processes across multiple contact points.”

Figure 4.7 contrasts basic and model-practice processes and roles across the SMA relationship.

Simply put, successfully working with an SMA requires regular communication across many levels of the organizations, while also building trust through activities such as joint long-range planning. As one CPG executive says, “You have to participate in their retail meetings, participate in their handheld system—never assume they know what you want them to do.”

To succeed, some CPGs structure their SMA interactions at multiple levels to ensure reporting and strategic, long-range planning activities. One successful CPG regularly holds:

- Weekly meetings between regional sales managers and SMA managers to review account-specific items
- Quarterly performance reviews with sales leaders and SMA account executives
Semi-annual strategic discussions with senior CPG executives and SMA leadership to review performance and set long-range objectives regarding pending product introductions and key initiatives.

To drive joint long-term planning, CPGs use a number of techniques. These may include having an SMA representative serve on the CPG’s sales leadership team, convening Broker Advisory Councils to provide advice to the CPG, or including SMA personnel in sales planning meetings to ensure alignment on upcoming milestones.

Investing in ongoing planning does require significant commitment from a CPG. As one of sales leader told us, “You need to be able to devote time to plan the business and interact with the broker partner. I think most of our success is what we have given them. We need to give them the competitive tools to drive the business.”

One CPG goes so far as to include their SMA in all of their high-level sales and product planning to ensure their SMA “is on the same timeline as our direct teams.”

There is no ideal template for CPG-SMA interaction. Some CPGs require more frequent interaction than others. Smaller CPGs in particular may have less complex process or oversight requirements.

In general, though, the most productive relationships feature not only a clear division of labor but also explicit guidelines regarding areas that can often derail outsourcing agreements. These include the expected share of SMA time, the representation of competitors and how to resolve concerns with SMA personnel.
CPGs can work with their SMA to address questions such as:

- How much of an SMA representative’s attention should the CPG expect to receive on a given visit?
- Can the CPG have an SMA employee replaced if the individual’s performance is viewed as subpar?
- Should the SMA alert the CPG if they are considering representing specific competitors?

**CPG Operating Philosophy and People**

Above all, CPGs must decide how they want to approach their relationship with the SMA. Are they a valued strategic partner, or are they a vendor? That decision will set a CPG’s operating philosophy and the tone for both organizations’ ongoing relations.

Model-practice CPGs develop solution-oriented and collaborative relationships with their SMA and assign high-potential talent to manage it. Figure 4.8 compares basic and model practices.

![Figure 4.8: People Model Practices](image)

<table>
<thead>
<tr>
<th>Operating philosophy:</th>
<th>BASIC</th>
<th>MODEL-PRACTICE</th>
</tr>
</thead>
</table>
|                       | • Treat SMA as a vendor rather than a strategic partner | • SMA viewed as part of CPG team  
  - SMA included in communications to ensure consistent voice to customer  
  - Strong cultural fit  
  - Proactive, solution-oriented |

<table>
<thead>
<tr>
<th>SMA management personnel:</th>
<th>BASIC</th>
<th>MODEL-PRACTICE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Inconsistent talent by line, region</td>
<td>• SMA management training ground for high potential CPG employees</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Negotiation stance:</th>
<th>BASIC</th>
<th>MODEL-PRACTICE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• CPG seeking a ‘disproportionate’ share of SMA resources</td>
<td>• Balanced approach to negotiations</td>
</tr>
</tbody>
</table>

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.

A mutual understanding of the other party’s business model also helps, as one CPG manager explains: “You can get lost in a brokerage. Many manufacturers don’t understand how brokers work, the financials of brokers, how to manage them to get the most out of them. You’ve got to understand their economic model.”
Overall, model-practice CPGs pull together multiple elements of a successful operating model. Figure 4.9 contrasts two larger CPGs in similar situations that have achieved different results through their operating model.

**Figure 4.9: Operating Model Comparison**

<table>
<thead>
<tr>
<th>Basic: Baking Co</th>
<th>Model-practice: Dry Goods Co</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Light SMA-management</td>
<td>- Specialized SMA-management organization</td>
</tr>
<tr>
<td>- 3-4 employees managing SMA activity</td>
<td>- 4 people managing SMA retail activity</td>
</tr>
<tr>
<td>- Average use of scorecards (basic metrics)</td>
<td>- Separate staff for SMA HQ mgmt</td>
</tr>
<tr>
<td>- More ad-hoc at addressing issues</td>
<td>- Separate direct sales organization</td>
</tr>
<tr>
<td>- 'Squeaky wheel approach' to SMA management</td>
<td>- More advanced scorecards</td>
</tr>
<tr>
<td>- Some bonuses for specific initiatives</td>
<td>- Formal meetings 2x/month; quarterly senior-level reviews</td>
</tr>
<tr>
<td></td>
<td>- Use of pilots</td>
</tr>
<tr>
<td></td>
<td>- Higher commissions for higher performance at HQ</td>
</tr>
</tbody>
</table>

**Moderately satisfied: Views SMA service as necessary, and lower -service for lower-cost**

**Very happy with retail service: Company is of sufficient scale to go direct, but continues to outsource 100% of retail activity**

**Pilots to Evaluate Changes in SMA Use**

Using current information technology, CPGs can quickly assess the business impact of a shift in their SMA usage. A pilot allows CPGs to perform a relatively low-risk test of a specific shift in SMA usage by creating an experiment and evaluating the results.

These pilots can be designed to evaluate the effectiveness of activities at both headquarters and retail, including an increased use of outsourcing or bringing functions in-house. CPGs that have used pilots have been able to answer such critical strategic questions as:

- Should a particular customer be served directly or by an SMA at headquarters?
- Does a more targeted approach to retail functions lead to a higher ROI?
- What effect would outsourcing a particular brand have?

One risk of pilots is that they may signal to a direct workforce that a change is being considered; if not managed carefully, this could lead to performance and retention problems with in-house talent.

*Figure 4.10 highlights several examples of successful CPG pilots.*

Given the increased focus on adding rigor to outsourcing decision-making, pilots likely will become a more common means for CPGs to assess potential shifts in SMA usage.
Conclusion: Critical Questions CPGs Should Ask About Their Operating Model

To restate our findings, one size does not fit all—if it ever did—regarding outsourcing. However, our research shows that the most satisfied CPGs have operating models which incorporate model practices across a number of dimensions.

To optimize SMA partnerships, consider the following questions:

| Structure: | • Is the size of my internal team sufficient to actively manage my SMA?  
|            | • Do I have a clear point of accountability? |
| Priorities: | • Is my scorecard robust enough—should I add any metrics?  
|            | • Could I be better using pay-for-performance incentives to drive better results? |
| Roles & Processes: | • Do I have guidelines for handling tricky situations (competitors, share of time, HR concerns)?  
|            | • Do my SMA and I set goals and engage in long-term planning together? |
| People: | • What caliber of people do I have allocated to SMA management?  
|            | • How do I ensure my SMA will retain their key personnel? |
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? (Am I happy with my SMA relationship? Am I comfortable that I’m ‘getting what I pay for’?)

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

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

All of these questions, of course, are simply means of evaluating and updating your go-to-market strategies at retail and headquarters. Are they working? Can they work better?

At Bain & Company, we define strategy not as a “plan.” Rather, we view it as a proprietary set of actions that help a company serve customers better than the competition. It’s also the science of allocating scarce resources.
Nothing is certain. But it is safe to say that working more effectively and efficiently with SMAs—especially in the midst of unprecedented economic turbulence and mounting cost pressures—is certainly one way to help accomplish both of these strategic requirements.
This study was conducted by Bain & Company, in conjunction with the Grocery Manufacturers Association (GMA) and the ASMC Foundation.

**Purpose**

The purpose of this study is to enable CPGs to make more informed decisions about outsourcing sales and marketing activities in a changing retail environment. This report was designed to help CPGs analyze their outsourcing decisions and maximize the value of their relationships with SMAs.

**Objectives**

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 focuses on the grocery, club, and mass channels. It does not address differences in national versus regional SMAs.

**Overview of Methodology**

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

Unless otherwise specified, all revenue numbers cited in the report reflect a company’s global consumer revenues.

**Web-Based CPG Manufacturer Survey (N=42)**

The online survey was designed to capture quantitative and qualitative information from a broad set of CPGs.
The first section of the survey captured CPGs’ current SMA usage, rationale for their outsourcing decisions and satisfaction with their current SMA arrangement.

The second section of the survey identified respondents who had undergone a significant change in their SMA usage within the last several years. This section explored the motivation for the change, as well as a number of quantitative metrics to gauge performance behavior before and after the switch.

Survey respondents include 42 individuals representing 40 different companies (a ~20 percent response rate) with sales ranging from less than $100 million to more than $30 billion. The majority of companies participating in the survey indicated that they use SMAs moderately or extensively. Survey respondents included senior sales executives and other senior-level executives, most of whom play a significant role in their companies’ decisions regarding SMA usage.

**In-Depth Interviews**

We conducted in-depth, 60-minute interviews with CPG manufacturers, retailers and SMAs to go beyond the numbers.

Interviews included:
- Heads of sales of CPG manufacturers (N=21)
- Select retailers (N=4)
- National and regional SMAs (N=4)

Topics included their current outsourcing arrangements, rationale for CPGs’ outsourcing decisions, management of SMA relationships, satisfaction with current SMA providers and general industry trends.

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**Figure A1.1: Respondent Demographics**

Source: Bain Outsourcing Survey (2009). N=42

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*Maximizing the Impact of Outsourcing*
**Case Studies on CPGs Experiencing a Change in SMA Usage**

This component of the research focused on CPGs that had recently experienced a major change in their SMA usage, either shifting some activities from in-house to an SMA, or moving some activities from an SMA to in-house. The primary goal of the case studies was to evaluate and quantify any changes in performance related to the transition. Case studies were based on both the survey and interviews.

**Participating Companies (in survey and/or interviews)**

<table>
<thead>
<tr>
<th>Participating Companies</th>
<th>Participating Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>4C Foods Corp.</td>
<td>Hormel Foods Corp.</td>
</tr>
<tr>
<td>ACH Food Companies</td>
<td>Johnson &amp; Johnson</td>
</tr>
<tr>
<td>Acosta</td>
<td>Johnson, O’Hare</td>
</tr>
<tr>
<td>Advantage Sales and Marketing</td>
<td>Kellogg Company</td>
</tr>
<tr>
<td>American Pop Corn Company</td>
<td>Kimberly Clark</td>
</tr>
<tr>
<td>B&amp;G Foods</td>
<td>Kraft Foods</td>
</tr>
<tr>
<td>Basic American Foods</td>
<td>Land O’Lakes</td>
</tr>
<tr>
<td>Birds Eye Foods</td>
<td>Mars</td>
</tr>
<tr>
<td>Bush Brothers &amp; Company</td>
<td>McCain Foods USA</td>
</tr>
<tr>
<td>C&amp;S Wholesale Grocers</td>
<td>McCormick &amp; Co</td>
</tr>
<tr>
<td>Campbell Soup Company</td>
<td>Melitta USA</td>
</tr>
<tr>
<td>Clorox Company</td>
<td>Method Products</td>
</tr>
<tr>
<td>Coca Cola Limited</td>
<td>Morton Salt</td>
</tr>
<tr>
<td>Coca Cola North America</td>
<td>Musco Family Olive Co.</td>
</tr>
<tr>
<td>Conagra Foods</td>
<td>Newell Rubbermaid</td>
</tr>
<tr>
<td>Contessa Premium Foods</td>
<td>Nice-Pak Products</td>
</tr>
<tr>
<td>Continental Mills</td>
<td>Nonni’s Food Company</td>
</tr>
<tr>
<td>Crossmark</td>
<td>Pepsi Co (Quaker/Gatorade)</td>
</tr>
<tr>
<td>Dannon Company</td>
<td>Pharmavite, LLC</td>
</tr>
<tr>
<td>Del Monte Foods</td>
<td>Pierre Foods</td>
</tr>
<tr>
<td>Dial Corporation</td>
<td>Pinnacle Foods Group</td>
</tr>
<tr>
<td>Diamond Foods</td>
<td>Roundy’s Supermarkets</td>
</tr>
<tr>
<td>Dominex Eggplant</td>
<td>Sara Lee Corporation</td>
</tr>
<tr>
<td>Folgers Coffee</td>
<td>SC Johnson</td>
</tr>
<tr>
<td>Food Lion</td>
<td>Schering-Plough Consumer Health Care</td>
</tr>
<tr>
<td>Fumiano Foods</td>
<td>SellEthics Marketing Group</td>
</tr>
<tr>
<td>General Mills</td>
<td>Smart Balance</td>
</tr>
<tr>
<td>Green Mountain Coffee Roasters</td>
<td>Sunny Delight Beverages Company</td>
</tr>
<tr>
<td>Grupo SOS</td>
<td>The Hershey Company</td>
</tr>
<tr>
<td>Hannaford Supermarkets</td>
<td>Two Chefs on a Roll</td>
</tr>
<tr>
<td>H.J. Heinz Company</td>
<td>Welch Foods</td>
</tr>
</tbody>
</table>
CASE STUDY 1:
Baking Co Drove Top-line Gains Through Improved Distribution

Situation (before shift)
- <$500M in consumer sales in baking category
- Direct team led HQ sales across channels

Shift in SMA Usage
- Baking Co moved all HQ sales to an SMA
  - Downsized by 30 FTEs
  - Maintained 5–6 district sales managers

Impact of Shift in SMA Usage

<table>
<thead>
<tr>
<th>Observed impact</th>
<th>Internally-reported impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in SMA usage</td>
<td>&quot;Our SMA has huge clout in the baking aisle - we benefited from that in sales.&quot;</td>
</tr>
<tr>
<td>Relevant category</td>
<td>Distribution</td>
</tr>
<tr>
<td>Relevant subcategory</td>
<td>&quot;Our broker really went after new business for us.&quot;</td>
</tr>
<tr>
<td>Baking Co</td>
<td>Costs</td>
</tr>
<tr>
<td>2.9</td>
<td>&quot;More of our selling costs are now variable and based on performance.&quot;</td>
</tr>
<tr>
<td>2.7</td>
<td>Profitability</td>
</tr>
<tr>
<td>3.6</td>
<td>&quot;We saw an immediate lift in distribution of our higher margin products.&quot;</td>
</tr>
<tr>
<td>Driven by price increases primarily from mix shift</td>
<td>Capability transfer</td>
</tr>
<tr>
<td>Threatened with disintermediation</td>
<td></td>
</tr>
<tr>
<td>2004-2006</td>
<td>Information and insights</td>
</tr>
<tr>
<td>2006-2008</td>
<td>&quot;We’ve learned how to sell to new accounts in a more data-based way through our experience with our SMA.&quot;</td>
</tr>
<tr>
<td>Note: Spices category includes salt, pepper, and other seasonings</td>
<td></td>
</tr>
<tr>
<td>Salt category includes salt, seasoned salt, and salt substitutes</td>
<td></td>
</tr>
<tr>
<td>Baking Co includes only salt category products, which comprise 95% of consumer food sales</td>
<td></td>
</tr>
<tr>
<td>Source: IRI data for food, drug, and mass retailers, excluding Wal-Mart</td>
<td></td>
</tr>
</tbody>
</table>

Keys to Success
- Strong SMA presence in category: Drove distribution gains for higher-margin products
- Joint HQ selling to maintain connection to customers: “We go on 80% of HQ calls... we are still the expert.”
- Active SMA management
  - Daily call with SMA contact
  - Scorecard-based evaluation driving compensation
- Use of SMA data/insights: “They showed us how data-driven selling works.”

Key Elements of Operating Model
- Detailed performance scorecards and use of technology to structure SMA activities
- Variable compensation based on performance vs. goals
- Clear division of labor between SMA & direct team at HQ
- Shared data analysis responsibilities
- View SMA as “an extension of our own team”
CASE STUDY 2:
Packaged Food Co Improved Profitability

**Situation (before shift)**
- $5B+ in sales across multiple categories
- HQ sales handled by direct sales force
- Some retail support provided by SMAs

**Shift in SMA Usage**
- Over 5 years, Food Co gradually increased level of HQ and retail outsourcing
  - At HQ: From zero outsourcing to ~25% of business outsourced, in hybrid model
  - At retail: Outsourced more activities (now 40% ACV)

**Impact of Shift in SMA Usage**

<table>
<thead>
<tr>
<th>Observed impact</th>
<th>Internally-reported impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>At retail</strong></td>
<td><strong>At HQ</strong></td>
</tr>
<tr>
<td>Sales/share</td>
<td></td>
</tr>
<tr>
<td>Costs</td>
<td></td>
</tr>
<tr>
<td>Profitability</td>
<td><em>Every outsourcing decision I make is based on a P&amp;L analysis.</em></td>
</tr>
<tr>
<td>Merch. compliance</td>
<td><em>SMAs don't have the time to affect compliance at retail...except through gathering information.</em></td>
</tr>
<tr>
<td>Focus on core activities</td>
<td>*There is an opportunity cost of lost selling time...if my guy can't sell then I will give the work to [SMA].&quot;</td>
</tr>
</tbody>
</table>

Source: Bain interview

**Keys to Success**
- Sophisticated customer segmentation to evaluate HQ decisions
- Close eye on economics of direct retail activities: “Direct personnel have to be paying their own salaries.”
  - Opportunity cost of direct staff time valued
- Investment in SMA–CPG partnership:
  - Frequent, in-person top-to-top meetings
  - SMA management role used as training ground for high potential CPG staff

**Key Elements of Operating Model**

<table>
<thead>
<tr>
<th>Process:</th>
<th>Priorities:</th>
<th>People:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant, active, formalized SMA management</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
- Head of sales meets with CEO every 6 weeks
- Formal guidelines in place (e.g. for competitor, personnel treatment) |
| Monthly scorecard tracking |
- Strategic & operational, cost and service-level goals |
| Performance-based compensation |
- SMA mgmt is training ground for high potential talent |
- Food Co demands high quality SMA reps: “We don’t accept any B-players” |
- “We are married to [our SMA]” |
**CASE STUDY 3:**
Drink Co Pursued Growth

**Situation (before shift)**
- <$1B in sales in category with frequent new product introductions
- Most HQ selling handled internally
- Most retail activity handled internally, in DSD model
- Very aggressive plans for growth; perception that internal organization couldn’t scale up fast enough

**Shift in SMA Usage**
- In core region, moved to full service model (HQ & retail) with SMA
- SMA charged with expanding distribution at HQ—both through acquiring new customers and further penetration of existing customers

**Impact of Shift in SMA Usage**

**Observed sales impact**
- Annual growth in FDMx sales of drink (pounds)
- Change in SMA usage

**Observed distribution impact**
- Annual growth in number of Retail & Supermarket doors selling Drink Co core product
- Change in SMA usage

**Internally-reported impact**
- Sales/share
- Distribution
- Costs
- Merch., compliance
- Focus on core activities

**Notes:**
- Refers only to Drink Co sales in relevant segment
- This information is confidential and was prepared by Bain & Company solely for the use of our client; it is not to be relied on by any 3rd party without Bain’s prior written consent.

**Keys to Success**
- **Focus on core competencies:** Drink Co can now concentrate on new product development (recognized its limitations in selling & logistics)
- **SMA with strong capability and cultural fit:** SMA’s strength in region drove desired results
- **Gradual transition:** Phased approach, using Drink Co personnel, worked well

**Key Elements of Operating Model**
- **Cultural fit was key** to selection decision and continued mutual success
- Few formal processes are currently in place
- Continuity with customers maintained by transitioning ~85 Drink Co merchandisers to SMA
- “I walk into [SMA] and they all know who we are.”

**Appendix 2—ADDITIONAL CASE STUDIES**

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*Maximizing the Impact of Outsourcing*
CASE STUDY 4:
Beverage Co., Former ‘Tail Brand’, Received More Attention

### Situation (before shift)
- $1B+ beverage division in highly promoted category
- All retail and HQ activity handled via direct team of larger parent company
  - Beverage Co products were small component of parent’s portfolio

### Shift in SMA Usage
- Moved to 100% outsourced at retail
- Moved to 50% outsourced at HQ—with all grocery customers outsourced
  - Club and dollar served directly
  - All grocery and drug served via SMA

### Impact of Shift in SMA Usage

#### Observed Impact

<table>
<thead>
<tr>
<th>Annual &amp; quarterly YOY growth in FDMx sales</th>
<th>Change in SMA usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.0% 8.3%</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

#### Internally-reported Impact

- **Sales/share**: "Hard to say exactly, but we had a record quarter right after we switched, and I believe our SMA’s better execution had a lot to do with that."
- **Costs**: "HQ costs went down by 10%, moving from direct to [SMA]."
- **Merch. compliance**: "Displays have improved…naturally, since we were only getting touched 4X/year before."
- **Out-of-stocks**: "Under [parent co], we lost ~8% of volume when we did a UPC conversion – our SMA did it for us with no blip in revenue."
- **Customer relationships**: "Our customers were a bit annoyed when we told them an SMA was taking over at HQ…but I gave them my cell phone number and they were fine."

Source: Bain interview

Note: FDMx represents food, drug and mass market, excluding Walmart

### Keys to Success

- **Focus on getting HQ selling right**: Given corporate goals, HQ selling was most important consideration in changing models
  - Results increasingly driven at HQ
  - Less differentiation at retail

- **Retention of key HQ activities**: Responsibility for demand-generation for category remains in-house

- **Awareness of direct team priorities**: “A direct team member can be the best…but it doesn’t matter if he’s not giving your brand any attention.”

### Key Elements of Operating Model

- **High level of attention from SMA**
  - “They care a lot about driving our business...because we’re paying them to.”
  - “We (our brand) no longer feel like an afterthought.”

- **High quality SMA staff**
  - “SMA people are often more expert at a customer than a large CPG—they are dedicated to that customer for a long period of time.”
Acknowledgements

Kristy Cunningham, Partner, Global Consumer Products Practice
Kara Gruver, Partner, Global Consumer Products Practice
Bain & Company team including:
Suzanne Roeder, Christopher Davidson, and Lisa Isaacs
Logan Kastner, Senior Manager, Sales and Sales Promotion, Grocery Manufacturers Association
Barry C. Maloney, CFO, ASMC Foundation

Special thanks are due to the following members of the GMA Sales Agency Committee who contributed their time and expertise to this project:

Dave Arbanas, Division Vice President, Advantage Sales and Marketing
Joel Barham, President and Chief Executive Officer, SellEthics Marketing Group
Ben Fischer, Chief Operations Officer, CROSSMARK
Ned Peverly, SVP, Corporate Strategy, Acosta Sales & Marketing Company
John Saidnawey, Chief Operating Officer, Johnson, O’Hare Company, Inc.

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