

New Challenges In Building CPG Sales Effectiveness

BY BOB MONAGHAN



SALES EFFECTIVENESS WILL DEPEND ON DEMAND SIDE COLLABORATION WITH KEY CUSTOMERS TO DEVELOP NEW BUSINESS FOR BOTH PARTIES.

Increased concentration and competition in the CPG marketplace has driven initiatives aimed to improve the effectiveness of the Sales effort.

We believe the pressure to improve effectiveness will continue to increase and that the next major advance in CPG Sales will take place on the demand side. Sales will become *more effective by focusing on the higher-value activities in the customer interface, activities that are concerned with demand-side business development*. This is because sales “effectiveness” will be driven by the ability of sales organizations to collaborate with key customers to develop new business for both parties. Major retailers are increasingly seeking new solutions to allow them to connect with consumers, drive outlet loyalty and more effectively compete in a challenging marketplace. As a result, we believe greater effectiveness on the demand side of the equation will differentiate manufacturers and lead to greater leverage and influence with customers in the CPG arena.

Senior CPG executives who are not yet concerned with this development should be. The business has become concentrated among a shrinking number of customers who view themselves as marketers that need to be actively involved in consumer demand genera-

tion. In the 90's, a manufacturer's supply-side and category management capabilities often determined the influence the manufacturer had with major customers, and these capabilities will continue to be a price of entry to the “customer influence” game. However, going forward, CPG companies will also have to help their customers deal more effectively with the demand side of the equation.

Many CPG companies, in recent years, have invested heavily in improvements in knowledge management, systems and automation to increase the efficiency of their sales organizations. These efforts are vital to the future, and are critical to keeping pace with increasingly sophisticated customers and competitors.

However, while important, we believe these types of improvements alone will not guarantee influence with top customers. Most leading retailers *expect* efficiency in their business relationships with their suppliers. They expect to have an open, clear view of their supply chain and timely, accurate communication links with suppliers. In fact, from our experience, they view these more and more as a cost of doing business rather than differentiating factors. Simply put, supply-side efficiency has become a requirement.

To deliver collaborative business-building solutions to important accounts, the manufacturer's customer interface must be enabled and empowered to identify business opportunities, make decisions and commit significant organizational resources to develop these opportuni-

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New Challenges In Building CPG Sales Effectiveness

Figure 1:
THE EVOLUTION OF THE CUSTOMER INTERFACE IN DEMAND GENERATION



ties. By the “customer interface” we are referring to what has traditionally been called “the sales function.”

The issue is that today’s account managers and customer team leaders, in many cases, are simply not equipped to operate at this more empowered level. Too many are focused at more tactical levels, and do not have the authority or the resources to develop new demand-side initiatives with their customers. Too much time and effort is wasted going back and forth to headquarters, rather than being spent on genuine business development. In our view, this must dramatically change for CPG companies to maximize the effectiveness and productivity of their customer interface.

It’s Time To Empower Demand-Side Business Development With Customers

While the issue is not new, we believe the time has come for a step-function change in the role and responsibilities of those who manage the interface with

major CPG customers. And the change will require far more than envisioned in the “sales manager-to-business manager” evolution discussed within the industry for a number of years. We will refer to this customer-interface-management function as “sales” in the balance of this article. However, we are thinking of a much different “sales” than the CPG industry is used to.

The ability to generate new business opportunities has become a customer-specific necessity. This is because major retailers are seeking business solutions that allow them to both capitalize on the power of national brands and leverage their own identity and unique connections with consumers.

In many ways retailers and manufacturers are now competing with each other for the consumer’s share of mind. With growing media fragmentation, communicating with consumers in-store is more important than ever. As a result, manufacturers must connect with consumers in-store, in a manner that takes into account and works with

the retailer’s business approach. Sales is in the best position to understand, identify, and address customer-specific needs and business opportunities, *but only if it is both enabled and empowered to do so.*

We believe the framework in Figure 1 shows the evolution of Sales, on the demand side, from more basic roots years ago in pure “selling” activities, to a role that culminates in business collaboration with key customers. These stages of CPG Customer Management form a continuum; they are not totally distinct, mutually exclusive activity sets. The “boundaries” between stages are flexible. Many organizations’ customer-interface management approaches are characterized by aspects of the two stages on either side of the boundary through which the organizations are evolving. This is the nature of evolutionary change. Nevertheless, the nature of the business relationship and the role of Sales in managing it change fundamentally as each stage in the evolution is reached.

Also, this does not suggest that any CPG manufacturer would apply the same customer interface management approach to all of its customers. Naturally, the more sophisticated approaches higher in the pyramid require the application of more resources than the other approaches. Today’s environment alleviates this potential problem because of the tremendous customer consolidation in virtually all CPG trade channels. Manufacturers need to bring their “A game” to fewer and fewer customers. That’s the good news. The bad news is that manufacturers *must* bring these increasingly sophisticated approaches to the major players to maintain influence with them.

Terms such as account manage-

ment, business management, customer development and strategic collaboration can be used very differently. We believe there is a need to establish a common language.

Traditional selling represents the historical roots of most CPG sales forces. As the complexity of the customer interface grew, *account management* evolved as the order and financial management activities fell to sales associates, as well as promotion planning and management. *Business/category management* was the next step in the late 80's and early 90's as sales organizations began to respond to increasingly powerful customers. Yet, Sales was still relatively limited in how much it could fundamentally impact pre-set programs or absolute levels of resources committed to individual accounts.

The next two levels, however, are very different, and involve new roles, responsibilities, and capabilities for Sales:

Customer Solutions: In this stage of the evolution, Sales is able to identify and recommend customized business solutions that align more closely with the customer's preferred go-to-market approach. These customization recommendations must demonstrate a balanced understanding of the customer's needs and the manufacturer's capabilities and constraints.

Strategic Development: This ultimate stage of the evolution has Sales working with major customers to develop and implement programs to create and meet new consumer demand. The aim will be to use the *combined power* of the manufacturer's brands and the consumer connectivity of the retail environment to drive *increased consumption*. In addition to a new breed of sales organization, this

approach will require manufacturers to be more creative and flexible in their overall management of the business.

Importance of Empowering Sales and How the Business Must Change

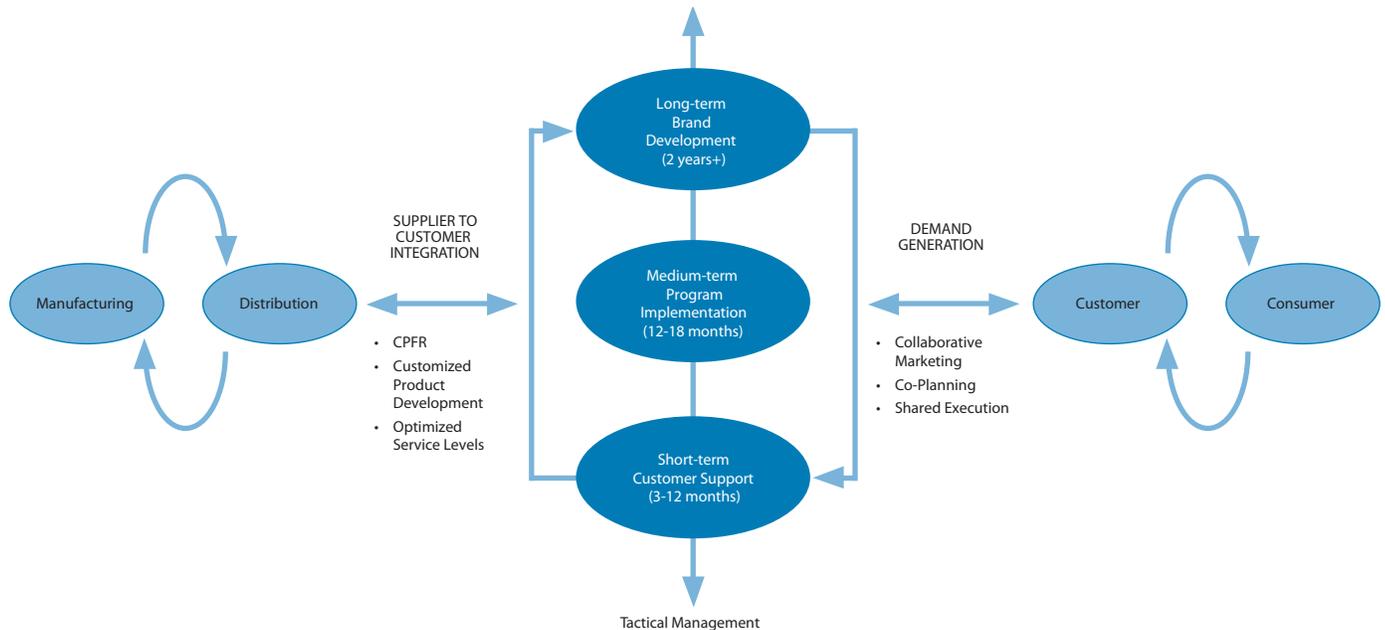
Some retailers are already developing solutions that would be associated with the Strategic Development stage. These initiatives usually aim at making consumer connections by addressing broader consumer need states than can be met by a traditional product category. Examples include Genuardi's home meal replacement center, called "The Kitchen" or Rite Aid's free-standing stores which feature GNC "Live Well" nutrition and wellness centers.

As connecting with consumers in the retail environment becomes an increasingly important part of the overall marketing mix, the consumer franchise development focus within CPG companies must also shift to more emphasis on reaching consumers *through customers* in ways which suit *both* brand and customer marketing objectives. Customer opportunities will vary by account, and businesses should direct levels of support accordingly. This will require a more sophisticated approach to customer investment and a whole new level of involvement by Sales in *developing demand* on a customer-specific basis.

Delivering innovative and unique customer-specific solutions will require that manufacturers develop new working relationships across Operations, Marketing and Sales. Also, the customer interface will have to be redefined. Sales will assume a broader role in determining how the business will connect with consumers in the retail environment and how resources will be allocated cus-

New Challenges In Building CPG Sales Effectiveness

Figure 2:
FUNCTIONAL INTEGRATION FOR BUSINESS DEVELOPMENT



customer-by-customer to accomplish this. Yet, many manufacturers still largely operate along traditional functional lines. Go-to-market programs are developed in a sequence from Marketing through to promotional groups before being handed off to Sales. We believe transitioning from this largely linear model to a more integrated and customer-focused framework is crucial to bringing the high-value solutions that we see as critical for sales effectiveness in the future.

Figure 2 presents an integrated model for strategic to tactical business development activities.

Three areas are highlighted which support not only demand generation initiatives (shown at the right) but also supply side efficiency efforts (at left):

Long-term Brand Development – Brand development has traditionally

been focused on connecting brands directly with consumers and maintaining those connections over the long term. The importance of the retail environment (and, therefore, the retailer) in forging and maintaining these connections has grown, and will continue to do so.

Medium-term Program Implementation – These programs are the vehicles through which manufacturers influence their consumer connections in the retail environment. They are tactics by which consumer connection strategies are implemented. Retailers have always acted as the gatekeepers of the process by which these programs actually make it into retail execution. Their emerging sophistication as marketers is making the gate increasingly difficult to penetrate.

Short-term Customer Support – The final level consists of “delivering the business” over the next 12 months. Even this, the most tactical level of customer interaction, is changing dramatically. The traditional “sales” person needs a much broader business perspective than ever before to manage the complex array of activities that characterize business relationships with today’s customers.

Empowering and Enabling Sales
The two supplier functions most responsible for developing and implementing demand-side initiatives are Sales and Marketing. What is needed first and foremost is a significant change in how Marketing and Sales are viewed within most CPG organizations. This is shown in Figure 3, which incor-

porates the long-term to short-term framework of business activities presented in Figure 2.

Traditionally, Marketing has owned long-term business and brand development, as well as the lion's share of medium-term program/promotion initiatives. Meanwhile, Sales' major focus has been on shorter-term execution. The dotted line shows the usual boundaries.

The arrows show how we believe this interface must change to empower customer-specific demand-side development. While the long-term focus of the business will continue to be spearheaded by Marketing, Sales must be heavily involved to bring the customer into the equation. Program development must be far more collaborative than it is today. Meanwhile, Marketing cannot be isolated from front-line customer interaction.

The evolution of a sales organization's staffing and structure to one empowered for customer interface development will depend on a variety of factors. Nevertheless, we think that a fundamental change in the role of Sales in demand generation must occur for companies to optimize their brands' consumer connections.

Changes in Responsibility and Authority

The new role for Sales will require significantly expanded responsibility and authority including:

- Identifying opportunities to develop the business with major customers and having the responsibility to actively champion initiatives to address them
- Customizing brand and product strategies into initiatives that capi-

Figure 3: EVOLUTION OF COLLABORATION FOR MARKETING & SALES

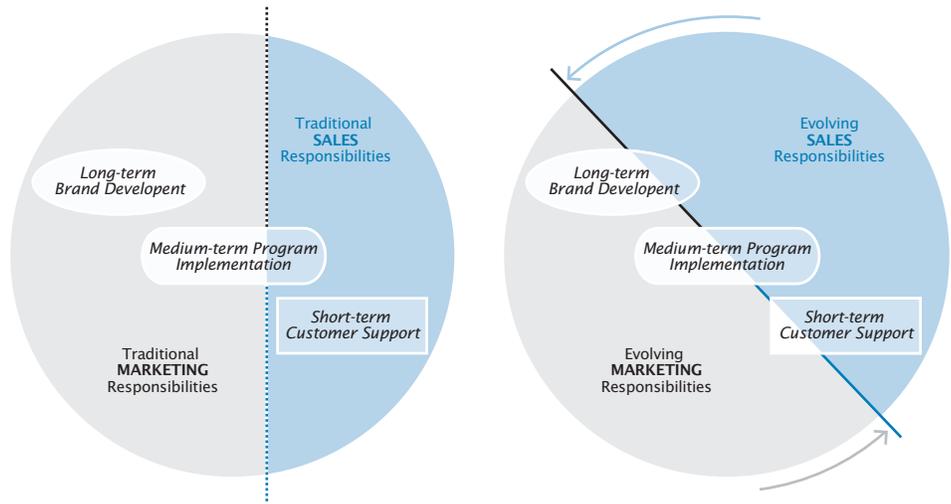


Figure 3A shows the usual boundary between Marketing and Sales

Figure 3B shows a more effective apportionment of responsibilities between Marketing and Sales

talize on account-specific opportunities and directing resources to bring these to market

- Allocating resources to customers on an elective basis, according to criteria such as the strength of the business relationship and the quality of development opportunities
- Providing direction to management to modify business objectives and strategies based on input from top accounts

Changes in Sales Personnel Profile

Many of the account managers and team leaders in today's CPG companies lack the background and experience needed to effectively handle this new role. While some sales personnel might be identified who can meet these new challenges with appropriate training and experience, many of tomorrow's customer interface managers will be brought into these positions from new

sources. These people will need a much broader business perspective than is typically derived from a traditional account management career path. It is important to recognize that, to fulfill the new role, sales people who handle top customers will need to be quite senior in the organization to be effective. However, seniority will not be enough. Significant non-selling experience, some of it obtained at a high organizational level, will be required in some instances.

Changes in Success Metrics

The name of the game in this new customer management arena will be demand generation. While traditional business metrics like volume and profit will continue to be important, new metrics will need to be devised to measure demand-creation on a customer-specific basis. If this sounds far-fetched, remember that as recently as 35 years ago, the only way a non-DSD manufacturer could

New Challenges In Building CPG Sales Effectiveness

measure volume was through its own shipments to its customers warehouse. Then came SAMI, and product flow to the retail level could be measured. Today, IRI and Nielsen scanner data measure consumer off-take at store level. The focus in the future will be on how big the business with a particular customer *can be*.

Changes in Information Systems and Other Business Processes – Suffice it to say that significant integration of a wide variety of information sources into far more capable support systems is required to enable today's account managers to play an expanded business role. Manufacturers will need to support more empowered customer managers with information systems and improved business processes.

Changes in Overall Go-to-Market Flexibility – Rigid product- brand- and even category-centric programs will lose their impact. The emphasis will be on customer-specific approaches to increasing consumer demand with focus on building the brand franchises of both the retailer and manufacturer. Traditional go-to-market programs will still be part of the marketing mix, but in an increasingly customized way. The prize – and the new yardstick of sales effectiveness – will be the organization's ability to positively impact their business dealings with their customers *on the demand side*. 