Packaged Goods Manufacturer Revamps Strategy to Penetrate New Channels

At the time this project was initiated, the manufacturer was a market leader in the grocery store channel, which then generated over 90% of category sales. Management recognized that changes were afoot but had limited visibility because the traditional syndicated data providers did not track the new channels. The data providers reported on results from food, mass and drug channels only, and their reporting indicated the manufacturer was continuing to gain market share, even though sales growth was slow or nonexistent. Management was aware of the emergence of new channels such as mass-market outlets and category superstores but was reluctant to devote resources required to penetrate these nontraditional channels in the absence of credible sales projections or even reliable current sales estimates. In addition, having never worked with these newer channels, management had little information on what would be required to penetrate these channels even if the decision had been to go after them. Management made the decision to hire DHC because of DHC's expertise in defining business opportunities in new and established markets and developing strategies to win in those markets.

DHC's approach consists of:

1. **leveraging insight into future market needs**
2. **redefining competitive market dynamics**
3. **designing innovative ways to apply resources to the target market.**

Research identifies emerging channel sales trends

DHC began the project by performing research to get a better understanding of category sales trends in emerging market channels. DHC consultants identified eight different channels with substantial category sales including grocery, mass market excluding Wal-Mart, drug, convenience, value channel (dollar stores), military, club, and category superstores. Since traditional data providers were focusing on limited channels and not capturing shifts in category dynamics, DHC researchers used non-traditional sources to understand recent trends and make future projections. Some of the companies driving the new channels were public, so the researcher collected information from their public filings on store growth and strategy. They used their client's shipment data to develop an understanding of what share category sales represent in these other channels. In addition, they used several innovative and proprietary methods to better understand category sales in all eight of the channels mentioned above. For each channel DHC consultants determined compound annual growth rates (CAGRs) over the past three years and projected CAGRs over the next five years both for overall sales and for the category.

The results of this research were striking. They showed that large supermarket store counts have been essentially flat over the five preceding years and that sales were increasing at a rate only slightly higher than inflation. On the other hand, the study showed much higher rates of growth in the emerging channels. The study showed that total channel sales in grocery stores had risen at an annual rate of only 1.2% over the three years preceding the study while sales had risen by 15% in Wal-Mart, 14% in the value channel, 13.1% in club stores excluding Sam's, 12% in drug stores and 5.6% in mass-market retailers excluding Wal-Mart. The projections for the subsequent five years, which were based largely on growth plans for each channel, showed that these trends would continue.

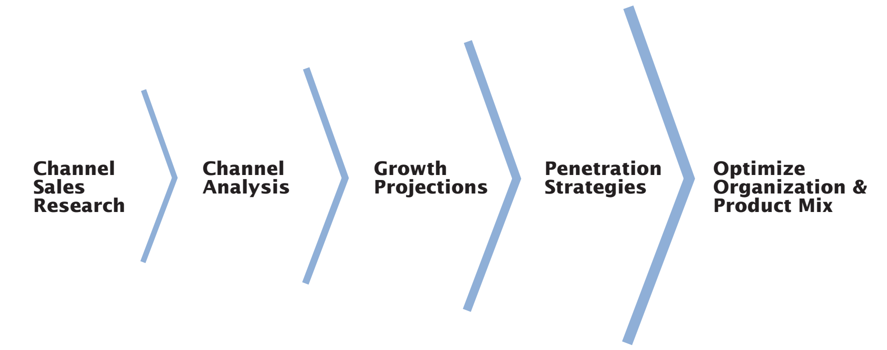
But the projections went an important step further by breaking out the growth in category sales. The real surprise from the research was that Wal-Mart's overall growth as a channel was huge but within Wal-Mart the category growth was much lower. The real category growth came in a channel that in and of itself was not that obvious, the value channel. Making assumptions about the category based solely on the channel growth would have been misleading. DHC's detailed research and analysis went a step further and looked at the category within the channel, resulting in a real "Aha!" moment that helped show which channels would drive category growth.

The study further predicted that the convenience channel would decline as food, mass and club outlets open gas stations on parking lot perimeters and that club stores had reversed the recent slowdown in their rate of expansion and would be adding stores at a rapid rate. Finally, the existing anemic growth rate of grocery stores was projected to drop even further in the coming years as the emerging channels continued to attract customers. In summary, the study projected growth rates for category sales over the next five years of 13% in the value channel, 6.2% in club stores excluding Sam's, 6.0% at Wal-Mart, 6.0% in drug stores, 5.0% in category superstores, 2.5% in the mass market channel excluding Wal-Mart, 2.3% in the military channel, -0.3% in convenience stores, and -0.5% in grocery stores.

Taking advantage of the trends
Having pointed out the opportunity, DHC developed recommendations on how to penetrate the high-growth markets identified by their research. Wal-Mart, the clubs, category superstores and the value channels operate in very different ways from the grocery, drug and convenience store channels that the manufacturer had dedicated itself to serving in the past. Wal-Mart, obviously, requires very low costs as well as compliance with the retailer's efficient supply chain practices. The club stores are looking for a large package size at a very low cost. The category superstores typically prefer a unique product to differentiate themselves from the mass-market outlets. While a large portion of the manufacturer's sales had previously gone through brokers, the newer channels prefer to deal directly with the manufacturer. It was apparent that the manufacturer needed to retool their product offering, sales force, marketing strategy and even reevaluate their organization in order to be successful in selling to the channels that DHC's research identified as the key growth areas for the next five years.

DHC helped to develop a plan to penetrate these channels, which, even though they had limited category sales at the time of the study, were headed for a period of substantial growth. Share targets were established for each channel by year and a roadmap for achieving the targets was developed. Key elements of the roadmap included categorizing each channel by type of growth expected over the plan's lifespan. Channels were classified as aggressive, tactical, or developmental and corresponding investment and asset allocation plans were developed. The study recommended retooling the manufacturer's entire organization to become better equipped to deal with the needs of the new channels. The overriding goal was to develop a business planning process that identifies, validates, and responds to opportunities in a timely entrepreneurial fashion.

NEW CHANNEL STRATEGY



Driving organizational change
One of the first priorities was to develop speed to market as a core competency. A second priority was maximizing growth opportunities at Wal-Mart and the other rapidly growing non-traditional channels. The specific recommendations included building a dedicated staff to call on these accounts and better coordination between sales, marketing, finance, and manufacturing in order to meet the special needs of the new channels. As a method of encouraging a collaborative planning environment, DHC recommended some changes in the metrics that people are measured against, such as evaluating manufacturing not just on its efficiency but also customer satisfaction. "The scorecard needs to be updated to reflect the higher-level goals of the organization," DHC stated.

These recommendations were embraced by the top management of the manufacturer. Based on the recommendations, the manufacturer has restructured their sales organization and redeployed existing resources to take full advantage of the opportunities in emerging channels. New products were developed to enter the growing premium segment. The manufacturer also developed new package sizes that helped to penetrate the club market. Balancing the need for servicing the new growth channels with profitability has proven challenging, but awareness of the issues involved has helped the manufacturer deal with them effectively. The result is that the manufacturer has become a major player in most of these new markets and has continued to drive significant annual sales increases even as sales in traditional markets have declined to less than half of the category total.

The lesson of this case history is that with new channels continuing to emerge at a faster rate than ever before, every consumer goods supplier needs to look five years into the future on a regular basis. The approach described here makes it possible to understand what's going on in the market today, what that means to its future, and what steps need to be taken to continue to drive sales increases. V