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About CPM

CPM gets brands into the hands of consumers. CPM Australia, as part of CPM International and a member of the Omnicom Group, operates under a group structure, with brands including CPM and Retail Safari delivering a unique end-to-end offer.

Retail merchandising: sunk cost or opportunity for growth?

Around the country, several thousand merchandisers provide syndicated merchandising compliance for manufacturers day in, day out. Their primary task is simply ensuring that brands and products comply with agreed planograms, reporting out-of-stocks and checking that product displays are correctly set up.

Based on industry estimates, the top 30 FMCG companies in Australia alone spend more than $100 million every year on providing a merchandising compliance service.

In an environment of low pricing, intense competition and a relentless search for value, it's time for the industry to question whether the current way of doing things is the most efficient. Could this $100 million-plus be more effectively redeployed to activities that create better value?

Why do manufacturers spend vast amounts on a service that should be – at face value – the retailers' responsibility?

We recently undertook research to better understand these questions. This included more than 20 in-depth interviews with leading brand manufacturers, retailers and merchandisers in the field.

Our aim was to understand the dynamics driving current practice and examine the potential to find an optimum balance between compliance costs and investment in growth of the various merchandising service models.

The following are three reasons for manufacturers' ongoing investment in merchandising:

Double-checking the retailer

This boils down to manufacturers not trusting retailers to support their brands properly.

Agreed trading terms originally placed the onus on retailers to merchandise the brands correctly in their stores. Most manufacturers don't believe retailers adhere sufficiently to these terms. They feel merchandising is necessary as a form of compliance checking of in-store merchandising.

"Compliance is always part of the trading terms with the retailer, but I estimate they do 50 per cent of the job only," a manufacturer representative said. "I have to 'police' my brands in-store because my competitors are always trying to take advantage, while the retailers simply don't or can't comply with what has been negotiated."

Old habits die hard

That 'it's always been that way' is another factor. Several manufacturers say they have been 'doing it for years' and it does deliver some comfort that their brands are getting good exposure. Notably, very few of these were able to provide any meaningful measurement of the return on their investment.

For some, it seems that a return on investment is less important than the comfort that comes from keeping an eye on the retailers.

"We think no more than 70 per cent of what we spend with a retailer ever lands at store level," a leading health and beauty marketer said. "We have 70 merchandisers. We don't know if they make any difference and, frankly, we don't want to know. We just do it anyway. If we don't complete our share of allocated planograms, the retailer gives the job to our competitor, even though we pay for ranging."

In-store relationships

The building or maintaining of relationships with store management and the consequent impact on brands and their businesses have tended to diminish over time as more and more control has been centralised in the retailers' head offices, although this is not generally the case with independent retailers.

"Store managers are less and less in control," one major FMCG marketer said. "Since relationships and interaction between merchandisers and store managers have become less important, merchandisers are essential not just to execute brand strategies but to ensure our brands are proactively executed correctly."

Existing merchandising models

Traditionally, there have been two major models for manufacturers looking to implement a merchandising strategy: the 'dedicated' and the 'syndicated'.

A third model has recently begun to gain some traction: the 'retailer-supplied' model.

The dedicated approach

Reasons for choosing the dedicated model include greater loyalty, brand knowledge, commitment to corporate values and the ability to foster shop-floor personal relationships that link the company with the retailers' store managers.

Having a dedicated team also allows a manufacturer to inject business-building tactics into the merchandisers' normal compliance routines, such as trial activities, consumer/shopper intelligence gathering, etc.

An international consumer products company has outsourced its merchandising capability as a dedicated team, according to its national sales manager.

"Because we're expanding our channels and have channel- and retailer-specific customised products, we're testing a dedicated outsourced model, which will be much more than simple merchandisers," the manager said. "We call them brand ambassadors and they're monitored closely for their effect on growing market share, ROI, nimbleness and flexibility."

The syndicated model

The syndicated, or 'shared-service', merchandising model is an outsourced approach in which manufacturers share the time of a merchandising team. In other words, when merchandisers visit a store, they will undertake their various tasks for a number of brands at once.

This model typically represents a trade-off between cost, on one side, and the heavy investment in a company and its brands that comes from the dedicated approach.

With cost-cutting a primary tactic to increase profitability, many manufacturers are encouraged to adopt the syndicated model. One of the consequences is that many manufacturers have moved from a dedicated model (whether in-house or outsourced) to a syndicated model in order to reduce costs.

It is surprising, therefore, that, as we noted earlier, few companies that have made this switch have effectively measured the ROI associated with their merchandising investment – neither before nor after the switch to syndication.

According to a leading international consumer products company, syndication is not necessarily an effective investment.

"I would have preferred that we keep our merchandisers in a

dedicated-to-our-brands model, but I was overridden since the shared-syndicated model is less costly," a company spokesperson said. "There is now less flexibility and we had to choose an agency without conflict, rather than one of the market leaders.

"We have a year's budget and allocate what needs to be done on a monthly basis, deducting the costs, as they occur, according to our immediate needs, so it's a cycle-to-cycle negotiation."

The emerging 'retailer-supplied' model

Faced with head count and resource cuts, retailers have begun to enter the merchandising space themselves. Major retailers have recently begun offering their suppliers in-house syndicated merchandisers, discouraging the manufacturers from having their own teams (whether dedicated or syndicated).

In other words, the retailers are out to ensure the cost transfer in manpower needed to deliver store compliance continues to be financed by the manufacturers as 'free margin' – even additional margin – for themselves.

Of course, the irony in all of this is, as we said earlier, that most terms of trade decree that the retailer has responsibility for merchandising in the first place. The retailer-supplied model boils down to retailers having manufacturers pay for something that the retailer should be doing itself.

Where can value be created in merchandising?

Many questions remain for manufacturers and retailers in a struggling and increasingly challenging retail environment:

- With monthly or twice-monthly 20-30-minute visits to 'tick and flick' a company's brands, what is the syndicated model really contributing?
- Is there room for significant improvement in merchandising – particularly of the syndicated model – or has it, as currently implemented, outlived its practical usefulness?
- How can manufacturers continue to spend large sums on merchandising when it should be the retailers' responsibility? Wouldn't they be better off investing these funds in growth-producing activation activities?
- Why is merchandising compliance widely exempt from the ROI requirements of other in-store activities such as trial and consumer promotion?
- What's really behind the retailers' desire to own a big piece of the merchandising-compliance 'pie'? How will this benefit the manufacturers' brands?

These are tough but necessary questions to answer that have been mostly ignored or at best 'tweaked' by many manufacturers as they have focused on outperforming their rivals and trying to make category management, trading terms and overall retailer relationships work more efficiently and effectively.

What has emerged from our research is that manufacturers largely believe it should be the responsibility of retailers to manage in-store compliance. However, in today's market, retailers wield enormous power (ACCC investigations into leading Australian grocers have shown, with demonstrated examples, pressure being applied to suppliers to continually reduce their prices).

In this environment, no one is about to demand that retailers take their merchandising responsibility seriously. The bottom line is that compliance enforcement exists as a significant additional cost to Australian FMCG manufacturers. It is, and will continue to be, a cost of doing business.

The big question, then, is how can manufacturers get the best bang for their buck?

If merchandising is a given, which model is going to provide the greatest value – the best return on the investment?

Can the 'waste' of merchandising for compliance be reconfigured as an opportunity to drive growth?

Is there a merchandising model that optimises the deployment of resources and costs to create value rather than existing only as an expense on non-revenue-producing activities?

Our research for this article is consistent with our own experiences on this count: the answer to these questions is absolutely 'Yes'. However, the trick to determining the best approach is not to go for a quick fix.

The better approach is to clearly rethink the way an activity can be structured and managed so that it will deliver value not only to the manufacturer, but also to retailers and customers.

The best examples of this to come out of our research were the manufacturers that see merchandising as something 'bigger' – those who see their merchandisers as 'brand ambassadors' that are an integral part of their sales function.

These firms believe that in an era of global consolidation and continually rising costs of doing business in retail, those that will survive and thrive need to take bold action.

They see the need to invest in the transformation of accepted, passive compliance roles into value-creating activities so that they contribute to their brand growth as the single priority, not merely 'checking the boxes'.

Conclusion

It is clear that now is the time for manufacturers to be taking a hard look at merchandising as it is delivered today.

While the need for merchandising is not about to go away, our research clearly highlighted the need to question 'category compliance' as its central purpose. Rather, the structure and responsibilities of merchandising teams needs a fresh look, as does the manufacturer rationale for choosing one merchandising model over another.

It's time to re-evaluate, reinvent and recalibrate the 'old' processes and systems. It's time to be bold – as some of our interviewees have been – and in doing so make merchandising compliance either irrelevant or more nimble and productive for business growth and success in the future. ◆