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Value Of Outsourcing Sales And Marketing:

A Study of the Prevalence and Use of Sales and Marketing Agencies by Consumer Packaged Goods Companies

EXECUTIVE SUMMARY

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Executive Summary

Outsourcing of sales and marketing functions to external food brokers — increasingly known, and in this report referred to as Sales and Marketing Agencies (SMAs) — has been prevalent in the consumer packaged goods (CPG) industry for many years. In addition to outsourcing various elements of manufacturing, supply chain, advertising, human resources and IT functions, many CPG companies outsource their sales and marketing tasks to SMAs. For years, the SMAs have successfully assisted CPG companies in introducing new products, increasing their speed to market, improving retail shelf management, maintaining continuity, and expanding market coverage. The trend of outsourcing key sales and marketing functions to SMAs has grown in recent years due to increased focus by CPG companies on reducing costs, improving marketing productivity, enhancing core capabilities, and ensuring product availability in a multi-channel marketing environment.

The prevalence of outsourcing sales and marketing by CPG companies is high, yet it is expected to grow further, driven by the increased propensity among leading companies to find ways to reduce costs and improve marketing effectiveness. SMAs have proven to be valuable to the CPG industry and retailers because of their ability to provide cost savings to the industry as well as their ability to increase product sales through intensive retail activities, including HQ sales support. For most CPG companies, SMAs provide a great return on investment as the invested infrastructure, sales teams and systems of SMAs could be utilized by these companies to achieve their sales and marketing objectives. The superior regional/local market knowledge and expertise of SMAs provide the basis for building the business of many CPG companies.

This report examines the growing trend of outsourcing sales and marketing functions and provides the first detailed assessment of the value contribution of SMAs to CPG manufacturers and retailers. Based on the findings of an empirical study of the prevalence of practices, and its consequent impact on meeting performance objectives, this report identifies best practices in outsourcing sales and marketing tasks that increase efficiency and effectiveness of the CPG industry.

Conducted over an 18 month period, the study is an example of extensive collaboration between academics and managers of leading US retail companies, CPG manufacturers, and sales and marketing agencies. The distinctive mix of academic rigor and practitioner relevance is the hallmark of this report. Inputs for this study were obtained through a multi-stage research process involving in-depth interviews of senior executives of CPG companies, retailers, and SMAs.

The purpose of this study was to determine the prevalence of the practice of outsourcing various sales and marketing tasks by CPG companies and to assess the nature and amount of value created by SMAs for the CPG industry.

The specific objectives of the study were to:

- Determine the extent to which outsourcing sales and marketing (S&M) activities increased efficiencies, effectiveness, productivity and strategic capabilities of manufacturers and retailers
- Create a better understanding of how marketing efficiencies and effectiveness can be enhanced within the industry, and
- Identify best practices in outsourcing sales and marketing within the CPG industry including roles, tasks and results performed by SMAs

Since the scope of this study was limited to US practices, report findings and recommendations may not be applicable in the European or Asian context. The roles and responsibilities of SMAs vary between Europe and US. In Europe, unlike the US, most food brokers and sales agencies take title to the goods and handle their physical distribution. But, the overall product promotion, retail and headquarters selling, and general HQ sales support are common across these markets, making portions of the study relevant globally.

Key Findings

The following is a summary of the Key Findings of the report:

1. **CPG PERSPECTIVE: SMAs PROVIDE ENHANCED MARKETING CAPABILITIES & COST ADVANTAGES** PAGE 6
2. **RETAILER PERSPECTIVE: SMAs PROVIDE CATEGORY INSIGHTS & FOCUS ON SELL THROUGH** PAGE 10
3. **COMPETITION & MARKET FORCES ARE DRIVING ADDITIONAL OUTSOURCING** PAGE 10
4. **ANNUAL GROWTH OF SMA MARKET ESTIMATED AT 15%** PAGE 11
5. **OVER \$4B ANNUAL SAVINGS IS DERIVED BY CPG COMPANIES** PAGE 13
6. **CPG COMPANIES FAVOR CONTINUOUS REVIEW & COLLABORATION** PAGE 14
7. **CPG COMPANIES & RETAILERS ARE OVERALL HIGHLY SATISFIED WITH THEIR SMA RELATIONSHIPS** PAGE 16
8. **FOR CERTAIN CPG COMPANIES, SALES EFFECTIVENESS IS A MORE IMPORTANT OBJECTIVE THAN COST REDUCTION** PAGE 17
9. **THERE ARE OPPORTUNITIES FOR SMAs TO LEVERAGE MARKET KNOWLEDGE** PAGE 18
10. **THERE ARE OPERATIONAL EFFICIENCIES AND PROCESS IMPROVEMENT OPPORTUNITIES FOR SMAs** PAGE 19

1 **CPG PERSPECTIVE: SMAs PROVIDE ENHANCED MARKETING CAPABILITIES & COST ADVANTAGES**

According to the research findings, most CPG companies believed that SMAs performed transactional services at nearly 30 percent lower cost than direct sales teams. Lower transactional costs for SMAs stemmed from scale advantages of the syndicated business service models wherein SMA overheads and operating costs are spread over multiple products and manufacturers. Their costs were also lower because SMAs were better able to cope with the fluctuations and “peaks and valleys” of work force demand, especially for retail projects.

A manufacturer’s decision to outsource is usually based on the needs of specific product categories. Products with scarce shelf space and that require constant attention are considered prime candidates for outsourcing, such as frozen foods and chilled items. CPG companies, even those who do not outsource their sales and marketing functions, acknowledged the superior capabilities of SMAs in providing more frequent retail coverage, more effective shelf task performance and the ability to generate greater “share of the voice.” Hence retail selling and retail support functions were the most outsourced tasks across all CPG companies. Retail selling primarily relates to sales planning for individual stores as well as retail sell-through activities. Retail support functions refer to store merchandising arrangements and other project tasks such as resetting stores, organizing plan-o-grams, and assisting in retail store improvement programs.

Most survey respondents agreed that SMAs provided relationship continuity, superior regional/local market knowledge and expertise, customer insights, and multi-tier relationships with customers. They were considered quite effective in secondary selling, new item cut-ins, preventing “out-of-stocks,” and managing promotional merchandising, displays and events. Except for those who were minimal outsourcers, CPG companies rated SMAs superior on most functions relating to headquarter selling, retail selling, retail support and merchandising, promotion management, sales administration, category management, and marketplace intelligence gathering and monitoring. The minimal outsourcers obviously have a greater perception of their own direct sales capabilities with respect to these activities, particularly headquarter selling. However, a large majority of CPG companies who use SMA infrastructure find that it provides much higher return on their investment.

Depending on size of the CPG companies, perceptions vary about whether SMAs are more suited for retail service work or for selling. Some large CPG companies believed that their internal teams were more resourceful and had superior access to customers for headquarters selling — making SMAs better suited for retail service. However, the smaller and mid-size companies indicated that SMAs, with their larger base of product and brand representation were more appropriate for headquarter selling. The invested resources of SMAs provide a great platform for small and mid-size companies to piggy-back their activities and achieve sales and business growth with high returns on investment.

Regarding specific headquarters selling functions, such as development of key contacts, achieving customer acceptance of new items, joint programs planning, and influencing favorable product placement for company brands, there were divided opinions among CPG company executives as to who had superior capabilities – SMAs or direct sales teams. With respect to certain planning functions, such as development of sales plans to meet targeted sales and profitability goals, and for presentation of sales plans to customers, the direct teams were rated more capable by most large cap companies.

CPG companies rated their direct teams as more capable than SMAs with respect to retail promotion monitoring tasks, such as verifying the timing and distribution of FSIs or reconciling cooperative advertising activities with available funding. They also rated internal teams as superior in performing such sales administration tasks as product sales forecasting, scheduling of optimal delivery intervals and volume, monitoring product delivery schedules, and unit volume delivery accuracy. But, on all other activities, particularly retail selling and support services, even the large companies admitted that SMAs were superior to their direct sales teams.

SMAs were considered far superior in all retail selling capabilities and retail support management including development and presentation of regional and local sales plans to meet targeted sales goals, profitability mix, new product introductions, coverage of retail stores at optimal intervals, product demonstrations to gain new product acceptance, developing and managing relationships with store managers and buyers, new product introductions, and all aspects of retail shelf management, promotional merchandising and retail “out of stock” prevention.

In recent years, SMAs have expanded their capabilities to include strategic consulting, category analysis, marketing communication, and technology solution offerings to their clients. The results of these vary for individual SMAs; however, many CPG companies believed that their internal teams had greater capabilities in category data analysis and development of category and brand plans. However, for other category management functions, such as creating planograms and obtaining best placement for products, shelf space and new item cut-ins, SMAs were considered to be superior. Overall, all category management functions were considered critical for CPG success.

Interestingly, retailers believed more than CPG companies that SMAs can do a better job of gathering marketplace intelligence and market monitoring tasks. CPG companies rated their own capabilities to be superior with respect to observing consumer trends in local areas. There were differences in opinion between small and large CPG companies wherein smaller CPG companies rated SMA capabilities considerably higher with respect to market intelligence and monitoring tasks than larger companies.

The table below summarizes perceptions of both criticality and relative performance by SMAs. Scores below 3.5 indicate that CPGs believe their internal capabilities are better. Further details are noted in Appendix 2, with subtask ratings. The last column, "%OUT" indicates the percent of task that is outsourced.

► **TABLE 1:** Relative Importance, Capability and Percent of Outsourcing to SMAs of Key Sales and Marketing Functions

CATEGORY	CRITICAL FOR SUCCESS Low=1 High=6	RELATIVE CAPABILITY Low=1 High=6	%OUT
Headquarters Selling	5.6	3.2	57%
Retail Selling	5.6	4.4	87%
Retail Support and Merchandising	5.4	4.9	87%
Retail Promotion Management	4.8	3.0	60%
Retail Sales Administration	5.3	2.9	38%
Category Management	5.6	3.4	47%
Marketplace Intelligence and Monitoring	4.9	3.6	44%

CASE STUDY: RAPID AND EFFECTIVE CUT-IN OF 31 NEW ITEMS

The following case illustrates how an SMA firm successfully managed a large new product introduction for a CPG firm.

In a two-week period, the SMA firm had to:

- Cut-in 31 new pet food items in more than 2,000 stores of a major retailer
- Visit 70% of stores in the first week
- Ensure new shelf tags are in place
- Pack out shelf
- Complete reset

The SMA firm handled the following steps:

- Received project request from CPG firm
- Identified required stores for project
- Built stores list and project plan
- Sent project plan to field
- Assigned field labor and executed project
- Pulled reports daily to ensure timely execution
- Sent reports to client weekly

Impact of SMA's work:

- Number of stores in project – 2,164
- Number of stores completed – 2,055
- 2-week completion rate – 95%
- Pet Food
 - Out Of Stocks Corrected – 831
 - Voids Corrected – 396
 - Tags Replaced – 1,475
- Litter
 - Out of Stocks Corrected – 25
 - Voids Corrected – 6
 - Tags Replaced – 1,475

ROI Ratio Impact - \$233.33 to every \$1.00

2 **RETAIL PERSPECTIVE: SMAs PROVIDE CATEGORY INSIGHTS & FOCUS ON SELL THROUGH**

Retailers valued the work of SMAs particularly in aligning and marrying manufacturer strategies with retailer plans. They were viewed as good partners since both shared common goals with respect to achieving retail sales, were knowledgeable about customer processes, and had appropriate relationships to accomplish necessary tasks. According to retailers, SMAs produced efficiencies in the overall process due to their good sectional view on category improvement and the large portfolio of products they represented — features that facilitated a myriad of decisions through a single contact. That helped retailers optimize their time for overall sales and merchandising management. They could also provide more inputs to manufacturers through SMAs due to the portfolio handled by them.

In the opinion of retailers, SMAs bring proximity and intimacy to the table, thus facilitating better top-to-top dialog and articulation of retailer strategy to manufacturers. At the operational level, the focus of retailers is in achieving “sell-through.” The expertise and efforts of SMAs in supporting such sell-through is recognized by retailers as very valuable. Retailers also value the field work performed by SMAs with respect to store project executions and other related tasks.

3 **COMPETITION & MARKET FORCES DRIVE ADDITIONAL OUTSOURCING**

Intense competition and shifting market forces are driving CPG companies to increase outsourcing of their sales and marketing functions to SMAs. Senior executives are finding ways to deal with marketing productivity challenges and margin pressures caused by retail price erosion and rising wages and fuel costs. Outsourcing to SMAs is considered a viable option for increasing efficiencies and effectiveness of the sales and marketing processes. Also, limitations in available resources within the context of a rapidly and ever changing business landscape are prompting CPG companies to focus more on their core capabilities and outsource those functions that can be better performed by others.

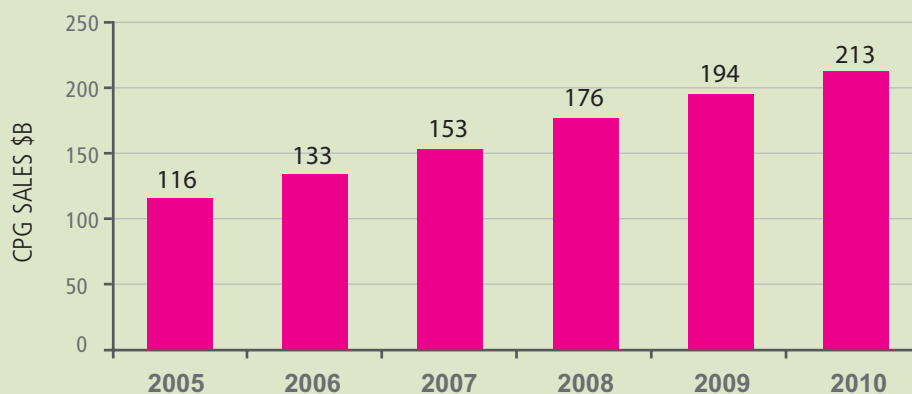
SMAs are also gaining more business opportunities because of evolving retail trends in multi-channel marketing. For example, non-traditional specialty retailers are increasingly including CPG food products as part of lifestyle offerings. Also, the expansion of mega-retailers into new geographies, new categories, new formats and new price positioning is compelling CPG companies to devise ways of participating more actively with retailer defined tasks and objectives. Since many CPG companies do not have the resources or capabilities to extend their participation into the expanded scope of multi-channel retail advancement, they are choosing to focus their activities on product and brand development while outsourcing the sales, marketing and retail merchandising to SMAs.

Capability outsourcing is not new to CPG companies as they have experience in outsourcing of raw materials, manufacturing, supply chain management, IT functions, advertising, and distribution. Most have also used SMAs for a considerable period of time. However, pressure now seems to have intensified even among the largest CPG companies to consider outsourcing to SMAs, including Kraft, General Mills and Procter and Gamble — companies that have traditionally used direct sales teams.

4 ANNUAL GROWTH OF SMA MARKET ESTIMATED AT 15%

SMAs currently represent about 54 percent of all CPG company retail sales revenues in the United States - equivalent to \$116 billion in actual cash value of commodity revenues for CPG companies. Given the trends of increased outsourcing, the level of market representation by SMAs is expected to grow by 15 percent per annum (starting in 2005) for three years and by 10 percent per annum thereafter. Thus, by 2010, SMAs would represent \$213 billion — almost double the business — in CPG sales to the retail channels. The additional gain in representation of CPG revenues will largely come from three sources - shifts from CPG direct sales to agencies; growth in new categories of products such as organics and naturals; and the significant growth of such channels as dollar stores and lifestyle stores.

► **FIGURE 1:** Expected CPG Sales Represented by SMAs



SMAs currently represent about 67 percent of all CPG brands and cover 63 percent of retail customers, indicating that a majority of the companies who outsource tend to outsource most of their brands and customer sales calls to SMAs. Hence the study results show that 55 percent of CPG companies outsource more than 65 percent of their retail sales revenues; and 60 percent of them outsource 80 percent of their brands to SMAs.

CPG companies expressed significant interest in increasing their market coverage primarily to the fast evolving multi-channel world. Even in more traditional supermarket channels, high value stores account for 60 percent of all commodities actual cash value, while independents and smaller customers offer higher opportunities to increase actual cash value and margins. Therefore, for reasons of scale and local market presence, SMAs are considered to be better positioned to service these customers than direct sales teams. Similarly, because the traditional grocery retailers are evolving from food to “one stop shop” concepts, blending both grocery and non-grocery retail categories into one full-line, full-service provider, CPG companies are more interested in leveraging SMA knowledge of a wide array of products across manufacturers to develop consumer solutions.

The emergence of an expanded scope of merchandise in non-grocery retailers, such as “Dollar” stores and specialty life-style stores including Barnes & Noble, Best Buy, Home Depot, Victoria’s Secret, and Toys “R” Us are prompting certain CPG companies to seek support from SMAs in selling and servicing these potential customers. Servicing such emerging channels through a direct sales force is considered difficult even for those companies that have high resource availability.

► **FIGURE 2:** Prevalence of Outsourcing Sales and Marketing to SMAs by CPG Companies

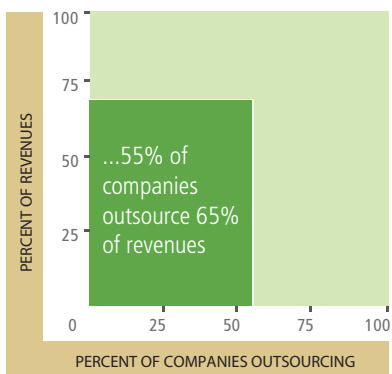


Figure 2a: Percent of CPG Revenues Outsourced

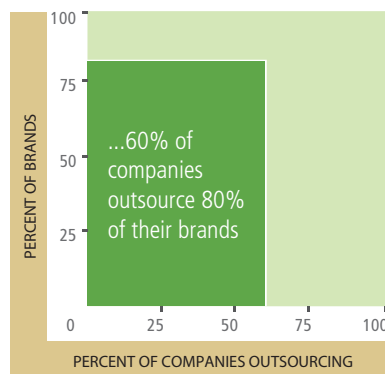


Figure 2b: Percent of Brands Outsourced

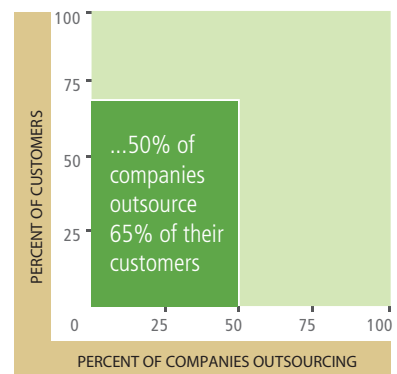


Figure 2c: Percent of Customers Outsourced

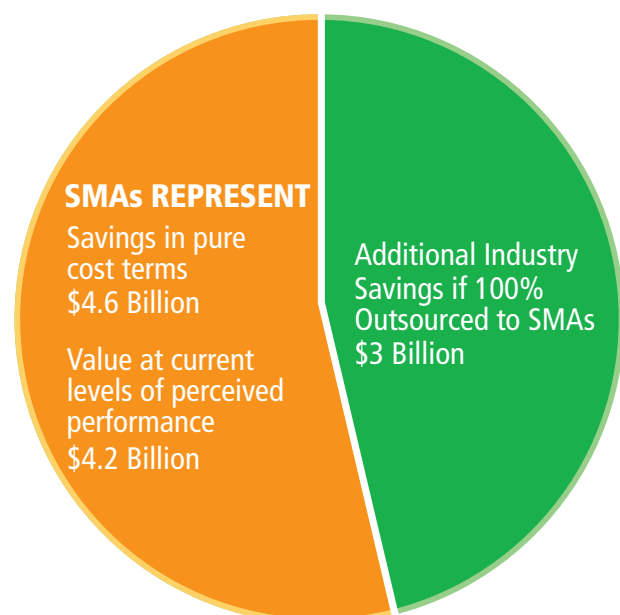
5 OVER \$4B ANNUAL SAVINGS IS DERIVED BY CPG COMPANIES

At current levels of outsourcing to SMAs, CPG companies derive an economic value of \$4.2 billion annually (see Part 4 of the main report for more details). This value is obtained from cost savings of outsourcing relative to the use of a direct sales team. In pure cost terms, CPG companies save about \$4.6 billion each year by outsourcing their sales and marketing functions. However, after adjusting for the slightly lower perception (91 percent) of the effectiveness of SMAs compared with direct sales teams in achieving the various sales and marketing objectives, the net savings from outsourcing to SMAs was estimated at \$4.2 billion in 2005 (see Part 4 for assessment model).

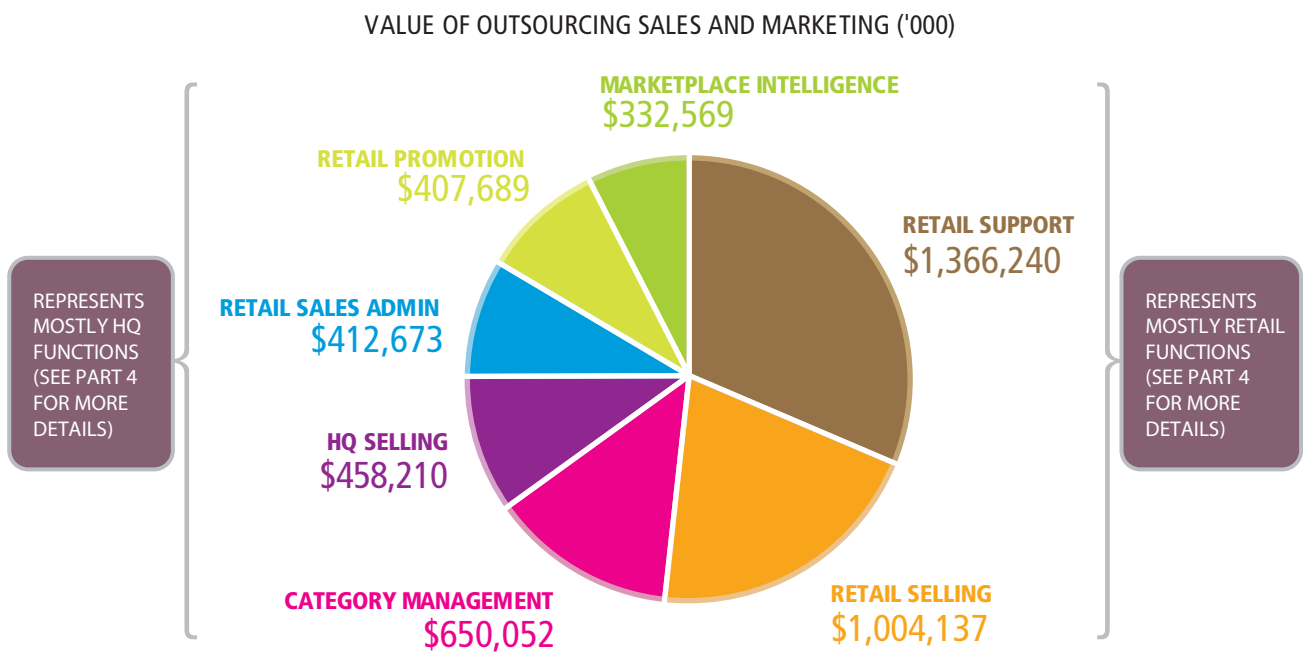
Additional net value contribution to the industry of \$3 billion is possible from outsourcing the remaining 46 percent of CPG sales revenues not currently represented by the SMAs. If CPG companies did outsource all the sales and marketing functions that were currently performed by direct sales teams, SMAs would gain additional professional service revenues of over \$2 billion.

Together, SMAs and CPG companies would gain further by making collaborative efforts to increase the effectiveness of SMAs in achieving CPG company marketing objectives. If such collaboration achieved the same level of effectiveness as direct sales models, the industry would benefit from an additional value contribution of \$400 million. SMA performance can be improved in several areas including promotional effectiveness, customer service processes, and entry into new markets.

► **FIGURE 3:** Value Derived by CPG Companies from Outsourcing to SMAs



► **FIGURE 4:** SMA Value Contribution to CPG Industry by Various Functions



6 CPG COMPANIES FAVOR CONTINUOUS REVIEW & COLLABORATION

According to the research results, CPG companies were more in favor of continuous review and planning processes to manage their relationships with SMAs. In other words, CPG companies preferred being involved in the overall management of tasks performed by SMAs rather than maintaining a hands-off approach. Structural issues seemed less important in terms of how teams were organized compared with the relationship management process and governance (see Table 2).

CPG companies believed that best value was derived through collaborative processes that built the working chemistry between manufacturers and SMAs. Through collaborative efforts, manufacturers and SMAs were undertaking joint development activities that resulted in long-term gains for all parties concerned.

As far as the decision to seek dedicated versus syndicated sales-service teams from SMAs were concerned, CPG companies did not have a consensus. Individual companies indicated that they had their own requirements with respect to the extent of focus and expertise that they needed from the sales agency teams. For products requiring considerable touch time and with significant demand for merchandising activities across the store, the perceived need for dedicated teams increased. However, this required a balance with the cost advantages that syndicated teams often offered. Hence, CPG companies weighed their own needs for dedicated focus on some brands versus cost advantages of sharing teams across multiple company brands in making decisions between dedicated versus syndicated sales-service teams from SMAs.

The collaborative dimensions of managing SMA-CPG company relationships were characterized by:

- a. Periodic meetings to review progress and achievements
- b. Collaborative governance with joint development of strategies, plans, systems, processes and competencies
- c. Continuous improvement process planning and implementation by both parties
- d. Independent responsibilities undertaken by company executives and SMAs to manage the relationship
- e. Established processes for reviewing results
- f. Ongoing transparency of SMA activities and results
- g. Continuous visibility (including web-enabled reporting tools)
- h. Alignment of each party's sales administration process to avoid duplication of activities and errors
- i. Well-defined roles and responsibilities of SMAs vis-à-vis CPG internal sales teams
- j. Variable models – dedicated or syndicated teams according to the need of the client

► **Table 2:** Importance of Processes for Managing Client - SMA Relationship

Rank	Top Rated Relationship Governance Characteristics	Mean Score Agree Strongly disagree=1 Strongly agree=6	% Practice
1	Meetings to review progress and achievements	5.52	46.4%
2	Collaborative governance	5.32	46.4%
3	Continuous improvement process	5.20	28.6%
4	Independent responsibilities	5.10	32.1%
4	Process for reviewing results	5.10	35.7%
4	Continuous visibility	5.10	28.6%
5	Alignment of processes to avoid duplication	4.90	21.4%

7 OVERALL, CPG COMPANIES & RETAILERS ARE HIGHLY SATISFIED WITH THEIR SMA RELATIONSHIP

Most companies were highly satisfied with their SMA relationships. They were most satisfied with the attributes of their SMA partners, irrespective of the level of outsourcing arrangement they were engaged in. There were also no major differences in the satisfaction rating scores given by small, medium and large size companies as detailed in Part 8 of the report.

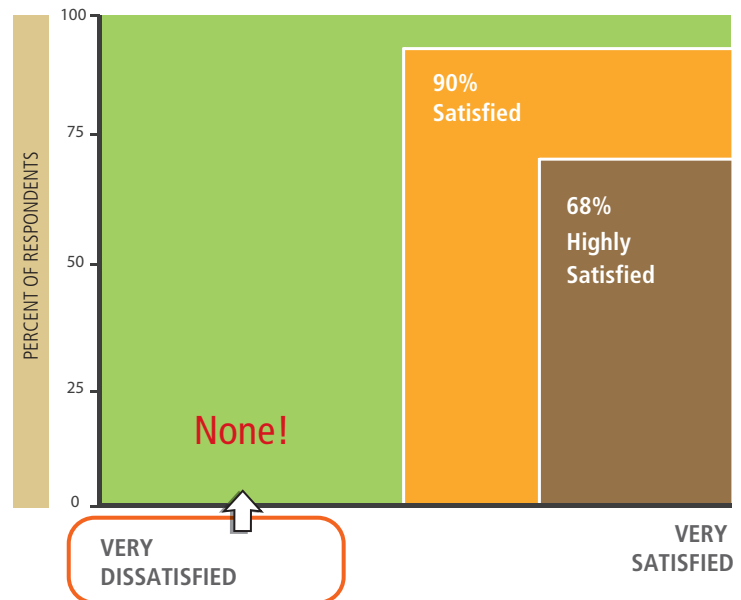
The satisfaction levels were quite high with the process by which the SMAs managed their relationship with CPG companies. Not only do they enjoy working with their SMA partner, but feel the working partnership between the two parties is excellent. They perceive their SMA partners to be very responsive to their needs. They also feel their SMAs are using processes superior than their CPG counterparts. CPG manufacturers are also very satisfied with their relationship with their current SMA. They are pleased about their SMA representing their products. They have good faith in their SMA's management philosophy, and are also impressed with the management team of the SMA.

That said, composite scores for performance satisfaction were more modest, primarily driven by high expectations and relatively low scores on the extent of retail coverage provided by SMAs. Although CPG companies seem to be seeking wider market coverage, it is unclear if their plans and incentives are aligned to achieve the same. SMAs are generally compensated on sales performance and therefore maybe aligning their resources and efforts in such territories and customers that produce the highest impact on sales. If CPG companies want wider market coverage, then they may have to align their sales plans and promotion budgets to deliver superior results and improve their overall marketing effectiveness. It also calls for a more collaborative relationship with SMAs in developing plans and strategies for improved results in areas of critical importance.

► **TABLE 3:** Relationship Satisfaction of CPG and Retailers

	MANUFACTURER Low=1 High=6	RETAILER Low=1 High=6
Performance satisfaction	Highly satisfied (4.3)	Highly satisfied (4.7)
Process satisfaction	Highly satisfied (4.6)	Very highly satisfied (5.2)
Partner satisfaction	Very highly satisfied (5.1)	Highly satisfied (4.6)
Relationship Continuity Commitment	Highly satisfied (4.6)	Highly satisfied (4.9)

► **FIGURE 5:** Percent of CPG Companies Satisfied with Overall SMA Relationship



8 FOR CERTAIN CPG COMPANIES, SALES EFFECTIVENESS IS A MORE IMPORTANT OBJECTIVE THAN COST REDUCTION

In general, CPG companies seek both effectiveness and efficiency goals when outsourcing sales and marketing tasks to SMAs. However, sales and marketing effectiveness related objectives are more important and drive the level of outsourcing to SMAs. Particularly, the following marketing effectiveness objectives are most important:

- Introduce new products and items
- Improve market coverage and distribution
- Increase product sales
- Improve promotional effectiveness
- Reduce "retail out of stocks"
- Provide superior competitive position

Among the efficiency objectives, the following are considered most important:

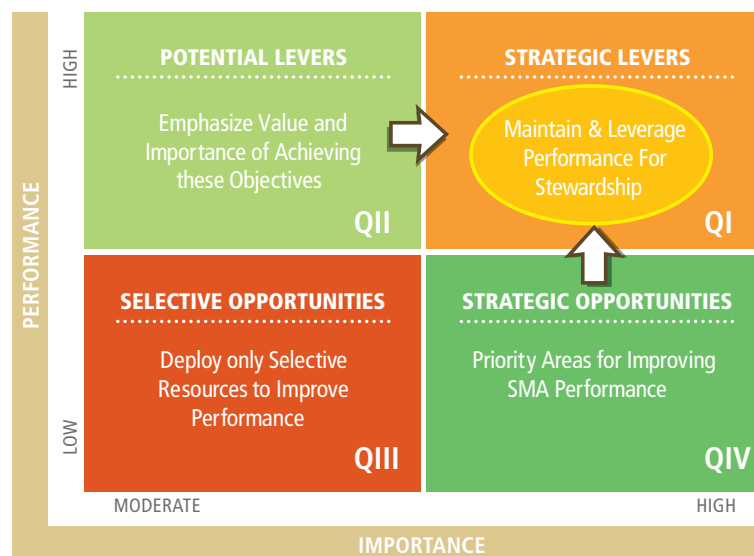
- Increase speed to market
- Improve product availability and visibility
- Rapid implementation of marketing programs
- Improve customer service and processes
- Reduce sales and marketing costs

9 THERE ARE OPPORTUNITIES FOR SMAs TO LEVERAGE MARKET KNOWLEDGE

With regard to individual activities of sales and marketing, SMAs have certain strategic levers that could be used to achieve superior performance and demonstrate stewardship in communicating value of their accomplishments to various stakeholders. These were objectives where SMAs were clearly perceived to be performing well; objectives considered highly important for CPG company success. Similarly, potential levers were tasks where SMAs were rated as superior in performance but the client perceived as low to moderate importance. The importance of these objectives for CPG success needs to be better communicated by the SMAs as they score well on these dimensions.

The real advantage would be gained by SMAs when they improve their performance on such objectives that were rated most important but where SMAs were given lower performance scores. Particularly, improving the low performance scores on these “highly important” tasks would make a major difference in CPG companies’ value perception of SMAs. In Figures 6a,b,c, various outsourcing objectives are illustrated through a 2X2 matrix indicating importance of the objective and perceived performance of SMAs relative to these objectives.

► **FIGURE 6a:** Importance of Outsourcing Objectives and Perceived Performance of SMAs



► **FIGURE 6b:** Strategic Levers – Activities and Tasks of High Importance Performed Well by SMAs



STRATEGIC LEVER EXAMPLES

- Introduce new products and items
- Improve market coverage and distribution
- Increase product sales
- Increase speed to market
- Improve product availability and visibility
- Reduce "retail out of stocks"
- Provide superior competitive position
- Build customer partnering relationships
- Increase share of customer's business
- Achieve rapid implementation of marketing programs

► **FIGURE 6c:** Strategic Opportunities – Tasks of High Importance Where SMA Performance Is Low



STRATEGIC OPPORTUNITY EXAMPLES Represents high impact opportunities:

- Improve promotional effectiveness
- Improve company image

10 THERE ARE OPERATIONAL EFFICIENCIES AND PROCESS IMPROVEMENT OPPORTUNITIES FOR SMAs

Those SMAs undertaking improvements to operational processes will continue to enhance their credibility and satisfaction with manufacturers. Such improvements can have a positive impact on operational costs, sell-through success, promotional management and coverage of retail markets. Ways to achieve operational efficiency would include technological upgrades, creation of shared service centers, outsourcing of back-end functions relating to sales administration or category analytics to low-cost locations, and training of staff for advanced tasks in the context of evolving retail trends. These initiatives could also improve the overall capability of SMAs for achieving greater effectiveness in addition to fostering operational efficiencies.

Conclusions

As the prevalence of outsourcing of sales and marketing activities by CPG companies increases there is a need to evaluate the performance of sales and marketing agencies. This study was commissioned with that objective. The study has demonstrated that:

1. CPG companies see significant value in the work performed by the agencies.
2. Overall, CPG companies are very satisfied with their sales agencies.
3. There are tremendous growth opportunities for the agencies in the form of 1) current clients outsourcing more activities, 2) new clients entering the outsourcing arena, 3) new channel opportunities, 4) international growth.
4. Overall, more and more companies are outsourcing their sales and marketing activities due to various pressures that they face.
5. In outsourcing sales and marketing activities companies look for cost reduction (efficiency) and better performance (effectiveness).
6. By and large the sales agencies are able to deliver on both accounts.
7. Collaborative management is considered a best practice in managing the agency relationship.
8. There are areas where agencies can improve performance and areas where they need to better communicate the value that they provide.

The net value contribution of outsourcing to SMAs is quite significant. The industry can further gain by increasing the level of outsourcing and by working collaboratively with SMAs in improving their effectiveness. Overall, as CPG companies seek to improve their market coverage in both traditional and emerging channels, SMAs are well-positioned to obtain additional business. However, SMAs will need to improve their operational efficiencies and increase retail coverage plans into new territories and alternative channels to take advantage of the emerging opportunities and evolving retail transformation.

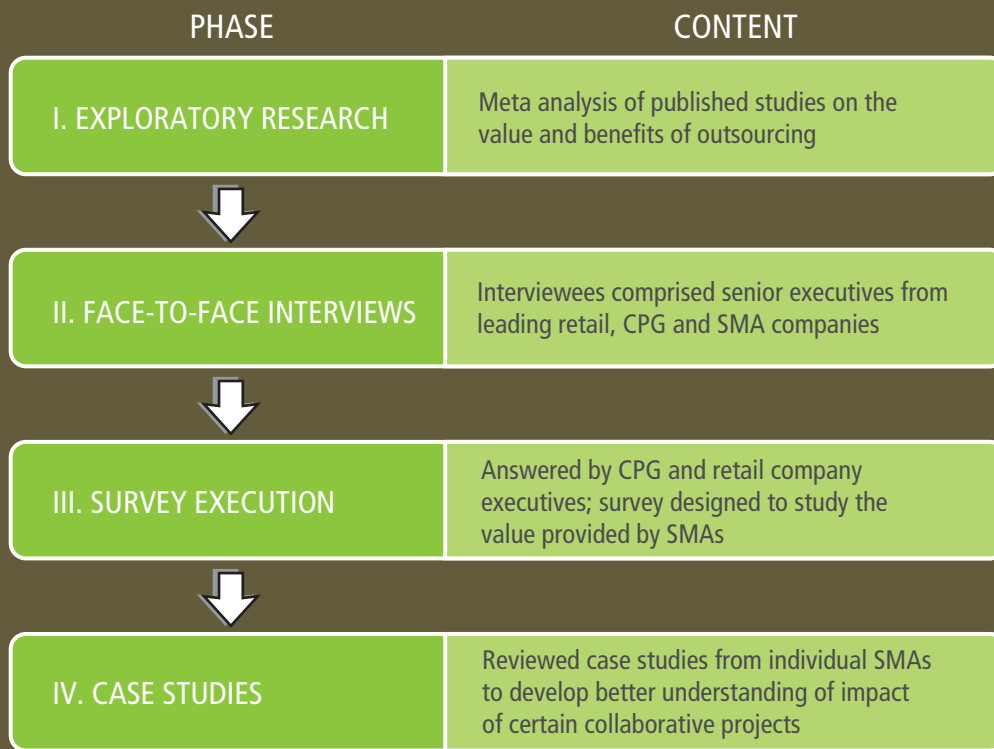
Overall processes are more important than structural issues for managing relationships with customers and clients. SMAs should strive to involve clients in major planning and review activities as well as the overall governance of the relationship. Collaborative methods of managing outsourcing relationships are preferred and yield best results. Both retailers and CPG companies are highly satisfied with SMA processes and attributes. However, SMAs need to work on improving the level of performance satisfaction among CPG company executives. One way to improve the level of satisfaction is to improve performance in those objectives that are considered highly important and where SMA perceived performance is rated moderate or low. Similarly, CPG companies can help improve SMA performance by involving SMAs in strategic

product-market planning and by aligning their incentives to SMAs for improving overall marketing effectiveness.

With respect to areas of SMA performance evaluation, CPG companies may have to re-evaluate their own models of operation and expectations, particularly with regard to improving revenues and profitability plans. CPG companies usually seek control of the sales and promotion function and planning budgets but expect SMAs to deliver superior results. Often, retailers are aware that SMAs do not have full visibility of the promotional budget; hence they tend to defer the trade negotiations to senior executives from CPG companies. By operating more cooperatively and collaboratively with SMAs, CPG companies can enhance results in areas of critical importance.

Methodology

The methodology for this study included both exploratory and descriptive research techniques. The study was conducted in four phases:



Research Process

Further details regarding the study's methodology can be found in Part 2 of the main report.

About The Authors

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Dr. Atul Parvatiyar is Principal Consultant & CEO of the Institute for Customer Relationship Management (iCRM) and responsible for the overall operations of the company in USA, UK, India and Malaysia. He is also the Robinson Research Fellow & Managing Director of the Center for Business & Industrial Marketing at Georgia State University. He has published several research papers and books and led industry best practice studies on global customer management; retailer-vendor relationships; outsourcing; and effectiveness of sales and marketing. He is project leader for several industry studies including assessing the Value of Outsourcing Sales and Marketing by CPG Companies on behalf of Grocery Manufacturers of America as well as the Foodservice Sales and Marketing Association. He is project leader for several industry studies including assessing the Value of Outsourcing Sales and Marketing by CPG Companies on behalf of Grocery Manufacturers of America, the Foodservice Sales and Marketing Association and ASMC Foundation.

Atul has been involved in strategy consulting for several leading organizations including All-state Insurance, Bank of America, Bose Corporation, The Coca-Cola Company, Celcom, City of Atlanta, Interface Advertising, Kimberly-Clark Professional, Kuok Group (Singapore), Mavesa (Venezuela), Milliken International, Nautilus Inc., Panasonic, Panacea-Biotec, Piramal Enterprises, PRG-Schultz, Shoppers' Stop (India), Siemens, SMC Pneumatics, DOAS - State of Georgia, Telekom Malaysia and Toyota.

Previously, Atul was a Marketing Professor and Associate Director of Center for Relationship Marketing at the Goizueta Business School of Emory University where he won the MBA Distinguished Educator Award. Dr. Parvatiyar received his MBA and Ph.D. Degrees from Banaras Hindu University in India.

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Naveen Donthu (www.donthu.com) is the Katherine S. Bernhardt Research Professor and Professor of Marketing at Georgia State University. Dr. Donthu received his Ph.D. in Marketing from the University of Texas at Austin. His expertise includes marketing research, consumer research, advertising, cross-cultural issues, marketing metrics, and electronic commerce. He has published over 100 research papers in leading marketing and advertising journals and proceedings.

Professor Donthu has consulted for several national and international companies such as Apple Computers, Marriott Corporation, Southern Company, BellSouth, UPS, Chick-fil-A, and ServiceMaster and presented executive seminars to managers from many countries. Naveen has received industry support and several academic grants to conduct research. Naveen is the doctoral program coordinator for the Marketing Department at Georgia State University. He has been the President of the American Marketing Association Marketing Research SIG and the VP for Meeting of the INFORMS Society for Marketing Science. He has received the Georgia State University Outstanding Faculty Achievement Award (university-wide award for extraordinary achievement in teaching, research and service).

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Thomas W. Gruen is an Associate Professor of Marketing at the University of Colorado at Colorado Springs, where he joined the faculty in 2001. Prior to that he was on the faculty of the Goizueta Business School at Emory University from 1996-2001. He holds Ph.D., MS, and MBA degrees in Marketing from Indiana University's Kelly School of Business. Prior to entering the academic world, he worked as a retail trade association executive for ten years and as an account executive for the Bell System for three years.

His research focuses on the management of customer relationships, focusing on retailer-manufacturer relationships in the fast-moving consumer goods industry. His research has been widely published including the Harvard Business Review, Journal of Marketing, Journal of Retailing, Journal of Business Research, and Journal of Applied Psychology.

At UCCS, Tom teaches e-commerce and Marketing Strategy to both MBAs and undergraduates. In addition to the above responsibilities, he is a regular Visiting Professor at ESCP in Paris, France, serves on the ECR-Europe Academic Advisory Panel, is a member of the editorial review board for the Journal of the Academy of Marketing Science, and is a research fellow at the Atlanta-based Institute for Customer Relationship Management.

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Brad is Vice President, Projects and Business Development for iCRM in Atlanta, and brings research, consulting, engineering, sales, marketing, and new product development experience to iCRM. In this role, he has managed the company's US operations and delivered consulting and research services for several global Fortune clients. Previous to iCRM, he was Founder and CEO of a new venture, VOC Systems, which provides a patented customer feedback solution to the hospitality and retail industries. Earlier in his career, he held a variety of engineering, sales and managerial roles at Texas Instruments, WR Grace and Parker Hannifin. He has earned three patents in areas ranging from customer feedback processes to a thermal management solution for portable computers. Brad holds an MBA from Emory University's Goizueta Business School and a BS in Engineering from Lehigh University.

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