PROMAX

when brokers can offer a low cost merchandising service

The smaller food suppliers seem to swap their own sales force for a broker service, only to go back to a direct force a few years later. Sometimes they then return to a broker yet again. Brokers naturally present themselves as an efficient and experienced alternative. Even large grocery companies sometimes go with a broker service – Kelloggs has just done that here in Australia. The question that has puzzled many a Sales Director is 'How can you decide whether a broker would be less expensive?' (The question of better I leave to another day!) And why should a broker be able to offer a better service that is lower in cost?

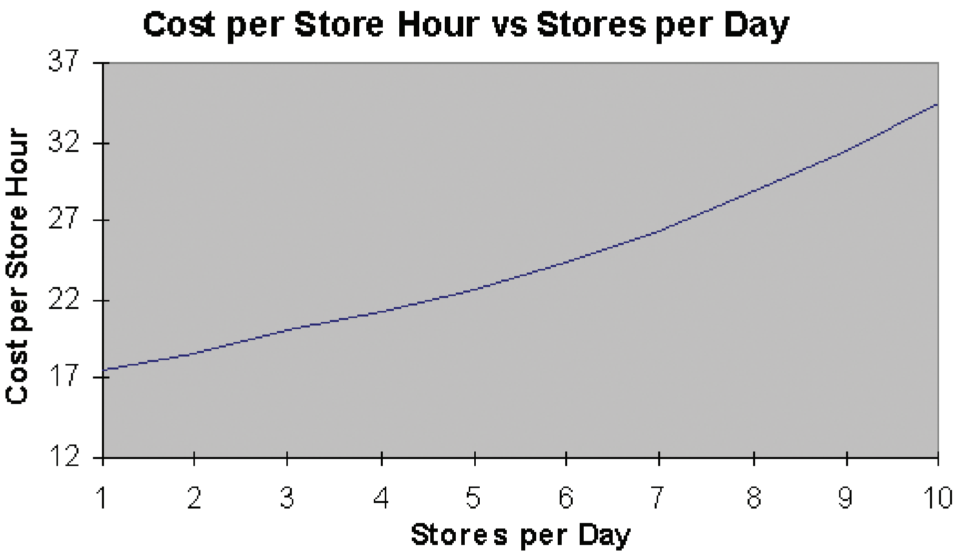
A couple of years ago I was able to compare the merchandising costs of a number of Australian Food suppliers. These companies differed in size, and indeed differed in the objectives they set for their field force. Nevertheless I was intrigued to discover that costs can be predicted with relative ease.

The costs of a merchandising service are a function of what is required to be done in store, and the number of stores that must be attended on an average day. In-store activities can typically include:

- Recording of your current facings
- Recording your shelf prices
- Recording competitive facings
- Recording competitive prices
- Recording promotional activity
- Recording your out of stocks
- Monitoring promotional compliance
- Building promotional displays
- Erecting display material
- Tidying up shelves
- Reporting and fixing Shelf Ticket problems
- Removing out of code stock
- Removing damaged stock
- Placing stock on shelf
- Rotating stock to bring older stock forward
- Selling in and effecting minor shelf changes
- Selling in a complete section relay
- Relaying a section
- Selling in secondary displays
- Preselling up-coming promotions

I have deliberately sequenced these with the very basic options first. Some merchandising teams are not required to do any more than record, and these are referred to somewhat derisively as 'tickers' by store staff. It is more common for company staff to be required to erect promotional displays and tidy shelves. Once we get to placing stock or carrying out stock rotation, merchandisers are beginning to spend quite a bit of time in store. Tickers typically can get into a store and out in twenty minutes, provided the range is not great. A merchandiser completing most of the activities listed here for a company with say 200 SKUs (in the average store) and turning over $500 million a year (in Australia) will be spending three or four hours in store.

The major suppliers typically are able to operate their sales forces at a much lower proportional cost than the smaller supplier. Thus a major supplier may spend 1% or 2% of sales on direct merchandising costs, whereas a small supplier may battle to contain the same costs to 6% or 7% of sales. The reasons for this are quite simple. Because there is more work to be done in store for a big supplier, their merchandisers may only call on two to four or five stores a day. The smaller company, with a smaller range and fewer facings, because their sales are much lower, will need to make eight to twelve or fourteen calls a day. This may seem quite reasonable, till you analyse the time spent between stores. At ten calls a day, the merchandiser will only spend 60% of their time in store. The rest of the time is spent getting to stores. The merchandiser doing three calls a day will have to make only two inter-store movements, and quite possibly will walk between stores. Their time utilisation in store can reach or exceed 90%. The merchandiser from the smaller company will also have a far bigger territory, with maybe ten times the stores to cover. This also increases travel distances and travel times, particularly if they are also required to carry out other duties like collecting cheques, which may require them to drive all over their territory. Smaller companies are notorious for assuming that field people can do all sorts of non-sales things in field without reducing efficiencies. The following chart illustrates how costs decline as the size of the supplier increases. The cost shown on the left axis is the cost per hour in store. Bear in mind that if a merchandiser costs $15.00 per hour in wages, but spends 50% of the time outside the store travelling around, the in-store cost will be $30.00 per hour. An alternative way of looking at this, is that the merchandiser who spends 90% of her/his time in-store compared to 50% obviously gets a lot more work done in the same period of time for the same daily wage. The costs graphed below include all direct costs, namely wages, on-costs and vehicle & fuel costs.



This graph clearly illustrates that if your merchandisers need to make 8 to 10 (or more) calls per day, the real cost is twice what it costs a company doing two to three calls a day. It also indicates that there is not much saving as you move from three stores per day to one. At one store per day, this could be a merchandiser who only services one store (as is found in South Africa in hypermarkets) to a merchandiser who may service a different store each day, but nevertheless would have a very small territory. The very clear conclusion is that a broker, by aggregating the merchandising requirements of a number of smaller clients, can offer each client a lower cost service than they could attain on their own. From experience I would suggest that when the work load is such that the merchandiser needs to spend more than three hours a day in store, the number of SKUs is so large that co-ordination can be a challenge. This is a problem that a broker will have once he has accumulated a large number of clients, and is one of the complaints that is sometimes levied against brokers. At this stage the broker should split up the load into two teams, although they will call on the same stores. The trick is to get the work load just right.

One of the issues not shown in this graph is how chain store staff will react to permanent in-store merchandisers. It is well known that as soon as a merchandiser sets a predictable routine, store staff will start to rely on their presence, and start to avoid doing the work that they would normally do. This is the filling of shelves. This could substantially increase the amount of work that is to be done. The list of activities above only includes refilling shelves, not replacing all sold stock every day. The only caveat to this is the extent to which night-fill is employed. Night-fill staff tend to work extremely fast- some would say far too fast. They will fill all shelves that need to be filled. They are unlikely to take advantage of some SKUs being maintained by permanent in-store merchandisers – that is until stores put a special flag against the SKUs! So I think one should be extremely careful before assuming that servicing one store a day is likely to deliver a lowest cost. At least servicing three stores a day allows a merchandiser to decide which day of the week, and which part of the day to service a specific store in any given week. Introducing a degree of uncertainty means the retailers store staff cannot avoid their normal duties.

Some retailers have suggested in all seriousness that suppliers should be entirely responsible for shelves – as is the case with bread. This graph indicates that a supplier cannot hope to deliver merchandising for a lower cost than a retailer. If retailers insist on suppliers fulfilling this role, as has happened in some parts of the world, the consumer will suffer through higher cost groceries, and quite possibly more out of stocks. I must admit that if I owned a supermarket, I would want to control my own shelves. In the end this is where money is made or lost.

One point my research also suggested. That is the amount of merchandising done is a simple function of how much time is available. In many ways this is common sense, but it illustrates the importance of working out how much you need to do in store, and providing sufficient resources to do it. If you cut merchandising costs by reducing heads, this will simply mean less work is done in store.

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