



# Strategies for Manufacturers in the Retail Channel: Optimizing Sales Force Effectiveness

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## THE OPPORTUNITY

Manufacturers rely on the retail channel to distribute and sell their products. Nurturing that retail relationship is absolutely key to success, yet has two components that require a fine balancing act: a) the need to drive recommendations and advocacy of the manufacturer’s brand; and b) being a value-added partner. This paper addresses the balancing act by providing manufacturers with key metrics and methodologies for assessing retailer sales performance.

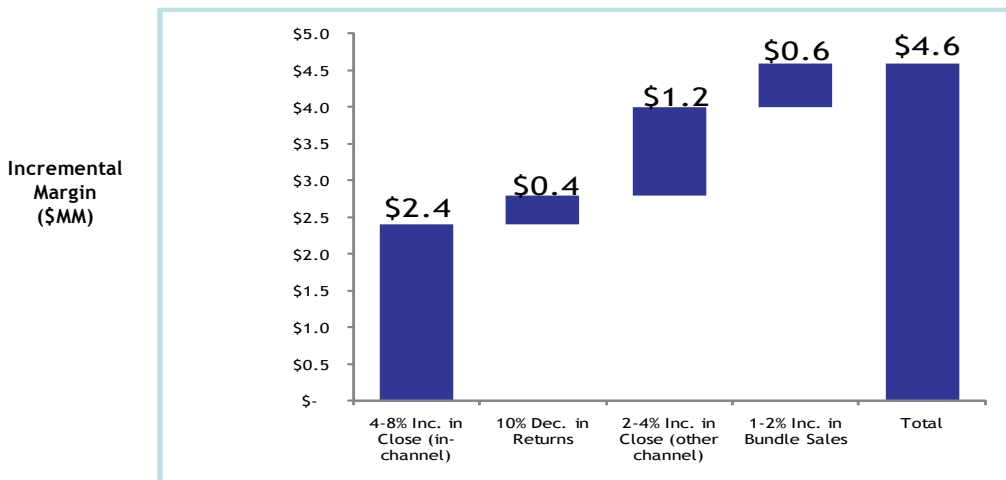
The first section focuses on measuring sales associates’ ability to influence and close sales. A recent paper by McKinsey documented the importance of various touchpoints in the consumer decision journey for purchasing products. 12% of consumers said the sales associate was the most important factor in establishing their initial consideration. This increased to 26% during active evaluation and 43% for closure. Clearly the sales associate has enormous impact on the entire decision process.

The second section of this paper focuses on how manufacturers can measure and track the retailers’ propensity to correctly message and recommend the manufacturer’s brand. With millions of dollars in training and promotional dollars at stake, staying “on-intent” is a critical success factor for increasing gross margins. In fact, we estimate that by better managing and measuring the retail channel sales process, manufacturers can substantively improve gross margins by increasing the close rate; increasing the basket size or product bundle; and limiting returns by setting correct expectations.

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Figure 1: Improvements to Bottom Line

*For an average \$120MM product line sold through retail, we estimate an incremental \$4-5MM in gross margin can be realized by ensuring your retailers are executing “On-Intent” – the way you intended them to execute!*



## MEASURING SALES INFLUENCE

Both manufacturers and retailers hunger for actionable insights—although each has different data needs. Both need to increase sales; however, the retailer must focus on overall same store sales for each location while the manufacturer must focus on sales for branded products and

services. Both need to understand what makes sales associates more or less effective and what the potential game-changing outcomes can be. Market Force has identified three key behaviors that sales associates must use to influence the final purchasing and product decision:

1. Demonstrate in-depth product knowledge, including creating need for new product categories
2. Drive upsell and product bundling
3. Show empathy and interest in customer needs

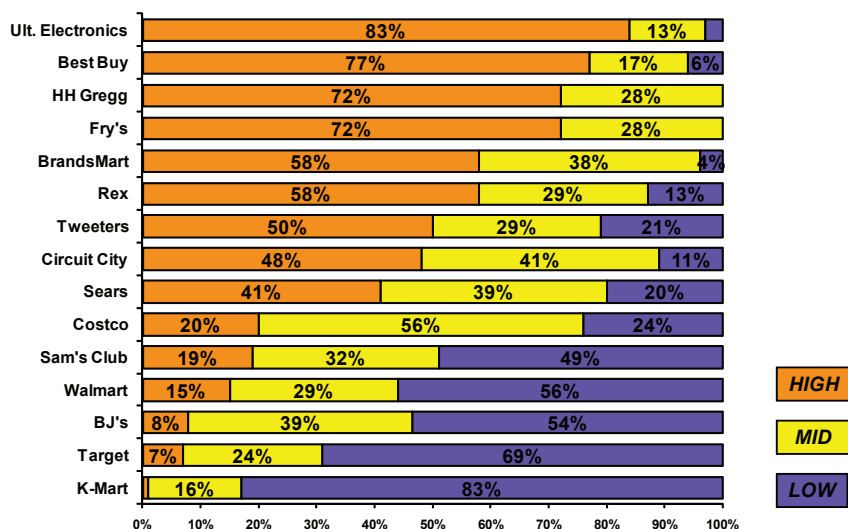
These three skills can be objectively measured using research methodologies such as mystery shopping, customer intercepts, and customer satisfaction surveys.

**1. Product and Category Knowledge**

Market Force conducts an ongoing study of HDTV sales force effectiveness. Using a mystery shopping methodology, we assess various retailers' product and category knowledge. Sales associates are measured on their ability to present the category (differences between LCD and Plasma; need for Blu-Ray technology, etc.) as well as the ability to answer product specific questions (what is the difference between Sony and Panasonic?). Figure 1 depicts a combined "Salesmanship Factor" and benchmarks the top retailers. Clear differences between retailers emerged, with Ultimate Electronics having the best scores. Note that Circuit City performed relatively poorly—below other specialty retailers and barely outscoring Sears. Circuit City's bankruptcy has been blamed on its decision to hire cheaper, less-educated sales associates. This data clearly points to a competitive disadvantage.

Information like that in Figure 1 can help retailers understand their relative performance in the marketplace; manufacturers can identify their best partners; and both can use the information to sharpen training programs.

Figure 2: Retailer Benchmark of Salesmanship



Salesmanship factor rating based on: perceptions of product knowledge, completeness of answers, and depth of inquiry into customer needs.

**2. Creating Upsell Opportunity**

Bundles, basket size, transaction size—whatever the term used, both manufacturers and retailers clearly benefit when the customer increases the size of their purchase. Sales associates highly influence basket size. By offering additional services, accessories, or compatible products, the sales associate creates both the opportunity and potentially the need to purchase. However, poor execution on creating upsell opportunities can mean millions of dollars in lost revenue opportunity.

In a second example from Circuit City, we used mystery shopping to determine whether sales associates mentioned critical services and components during the sales process for computers. Over the course of a single quarter, Circuit City missed \$195MM in upsell opportunity because sales associates simply did not offer a given service or product. In addition, for Circuit City’s most important driver of margin—service attach rates—over a third of associates never mentioned the flagship Firedog product.

Sales associates can create significant opportunity for upsell- or lose that opportunity by ineffective customer engagement

Figure 3: Sales Associate Influence on Brand Choice

**Conservative estimate of \$195 MM in lost revenue opportunity.**

Product/Feature	Suggestive Sell Score	Value+	Missed \$ Opportunity*
Service attach to hardware	68.0%	\$129	\$38,638,080
Protection Plan	52.0%	\$125	\$37,440,000
HD DVD Player	25.0%	\$99	\$46,332,000
HD content	27.0%	\$69	\$31,430,880
Cables	34.0%	\$7	\$2,882,880
Wall mount brackets	47.0%	\$29	\$9,590,880
TV stand/furniture	17.0%	\$59	\$28,716,480
			<b>\$195,031,200</b>

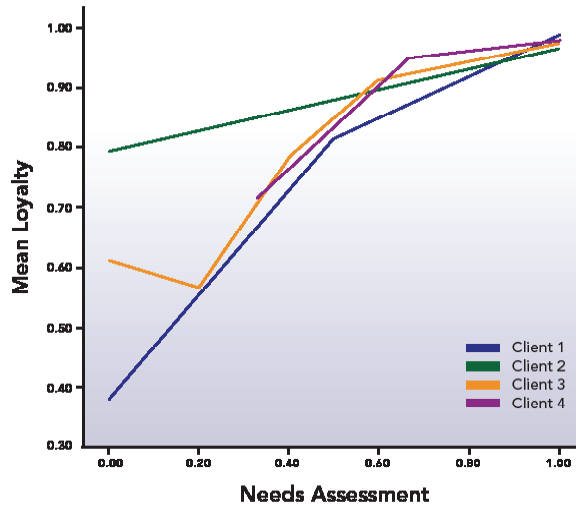
The sales associates’ ability to create awareness and opportunity for larger bundles can be objectively measured and is a critical component for measuring sales force effectiveness.

**3. Understanding Customer Needs**

An interactive, empathic, engaged sales associate asks good questions to ascertain customer needs. For HDTV, questions might regard room size and lighting, type of cable, and whether primary use is for movies vs. sports viewing. For laptop and desktop products, questions may focus on applications used, graphics requirements, and the ability to connect multiple users.

Our research shows that the more questions the sales associate asks, the higher the customer satisfaction ratings. Why? Because by asking more sales questions, the sales associate demonstrates engagement and empathy. The graph on the following page shows data for four retailers who sell complex products and measure the sales associates’ engagement. In each case, customers’ satisfaction increases when the sales associate asks more questions.

Figure 4: Suggestive Sell Index



Asking more questions increases the customer's satisfaction; sales associates are perceived as more highly engaged

## MEASURING BRAND MESSAGING AND ADVOCACY

Manufacturers become a value-added partner to retailers because they can drive increased sales for the retailer by focusing on their own product metrics and provide insights into the retailer's sales capabilities. However, they also need to understand whether retailers are correctly messaging and advocating for their specific brands and products. Manufacturers must track three components:

1. Influence at the Point of Sale
2. Staying on Message
3. Inventory Saturation

### 1. Influence at the Point of Sale

Customers contemplating the purchase of products that require explanation and/or a hands-on interaction use a variety of channels to guide their purchasing decision. Some use on-line research to understand the competitive set, evaluate specific products, and get pricing. They follow that initial research by talking with retailers' sales associates to get more information, and may either purchase through the retail channel or return on-line to get the best pricing. Others reverse the process, using the retailer to obtain information and then looking for the best deal on-line. In either case, the sales associate has the opportunity to substantively influence the choice the customer makes.

To illustrate, consider our findings from a consumer panel survey on the purchase decision process for high-definition TV's. 41% of those customers visiting the retailer to make

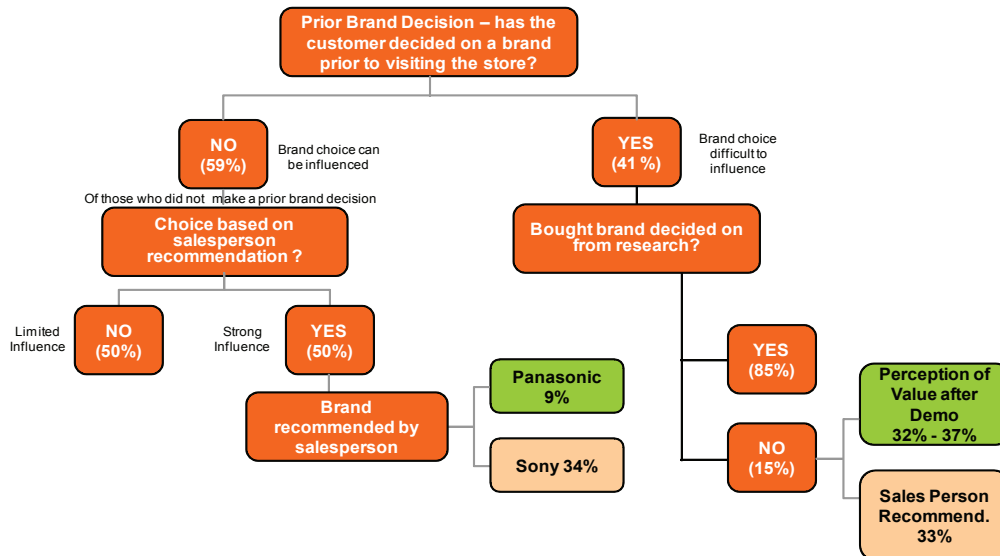
a purchase had decided what brand they wanted to purchase- 59% had not. Of those who had not made that decision, 50% chose the brand recommended by the sales associate—with 9% choosing a Panasonic brand and 34% a Sony brand. Of the 41% who said they had chosen a product prior to their visit to the retail store, 15% reported being so influenced by the sales associate that they purchased the product recommended by the associate.

Manufacturers can thus measure not only the various retailers' ability to influence the purchasing decision process, but also the specific brand and product being recommended.

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Figure 5: Sales Associate Influence on Brand Choice

*Sales associates influence the final product decision—even when the customer came in the store with a decision made. (Source: MFI/Grail Research Panel Study)*



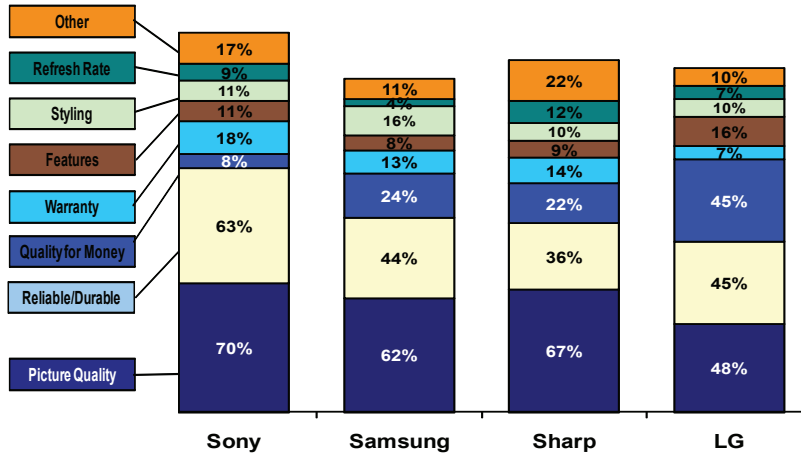
Although manufacturers must understand how their customers purchase, it is particularly critical to understand how effective their retail partners are in selling the manufacturer's particular product. Manufacturers have much less control over this channel and must diligently assess the retailer's ability to influence the sale. What are the critical components of sales influence?

**2. Staying on Message**

Manufacturers spend approximately 8% - 12% of their budgets on marketing: positioning, messaging, advertising, and training their distribution partners. Retailers are expected to stay "on message," correctly positioning both the brand promise and the specific product. Manufacturers must measure what retailers say and determine whether they are "on message." Again, results from our HDTV study illustrates how manufacturers can use methods like mystery shopping to assess "on-message" performance. In each sales interaction, we measured what the sales associate said about the brand and product features. Differences can easily be tracked—both by manufacturer and by retailer.

Figure 6: Sales Associate Influence on Brand Choice

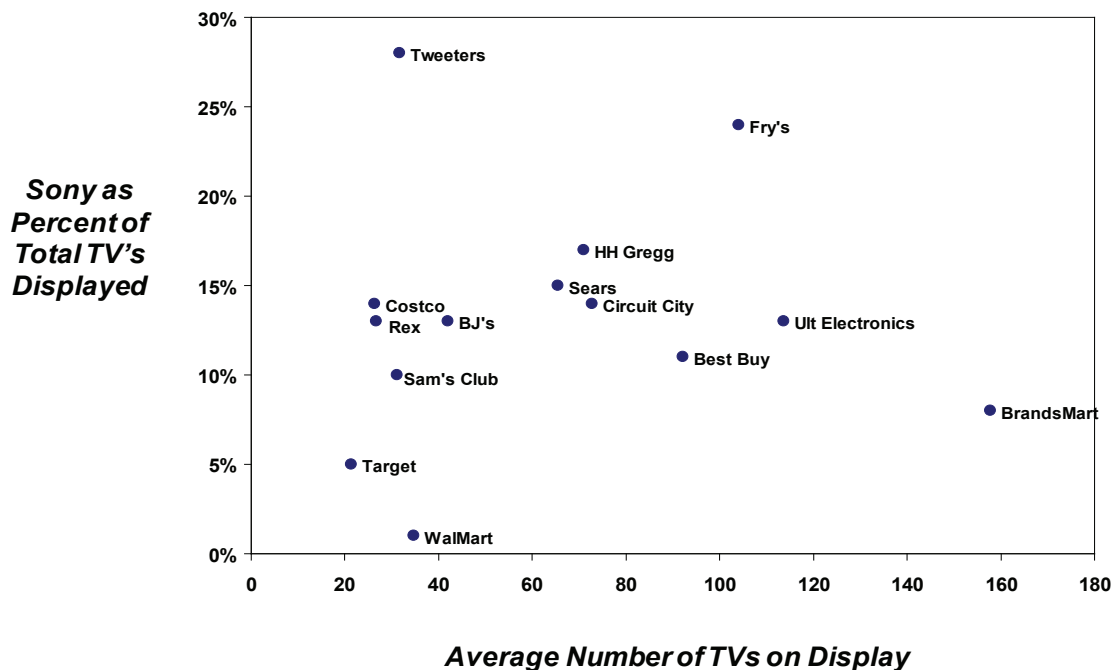
What sales associates say about the product may or may not adhere to the brand promise. Messaging also sets expectations—which can affect product returns. (Source: MFI HDTV Retail Insights Study)



### 3. Inventory Saturation

The last measurement opportunity regards the percent of inventory for a particular manufacturing brand taking up the retailers' floor space. In the example below, an audit of Sony HDTVs as a percent of total inventory shows that although Tweeters doesn't carry many individual units, they clearly favor the Sony brand; conversely Target has a much smaller percentage of Sony products. This type of data can be matched up against market penetration and retailer incentives to determine whether manufacturing promotional dollars are effective.

Figure 7: Sales Associate Influence on Brand Choice



## SUMMARY

Manufacturers have the opportunity to increase sales and gross margins by facilitating a strategic partnership to retailers and closely monitoring the advocacy of their own brands. Data collection methodologies, such as mystery shopping, surveys, and in-store customer intercepts can measure:

1. Product knowledge, including creating need for new product categories
2. Ability to upsell and bundle
3. Ability to meet customer needs
4. Brand recommendations
5. Brand messaging

Resources: Court, D., Elzinga, D., Mulder, S., and Vetvik O. "The Consumer Decision Journey," McKinsey Quarterly, June 2009.