

Promotion Optimization Institute, LLC

The Evolution of Crowdsourcing: Rise of Performance-Driven Merchandising

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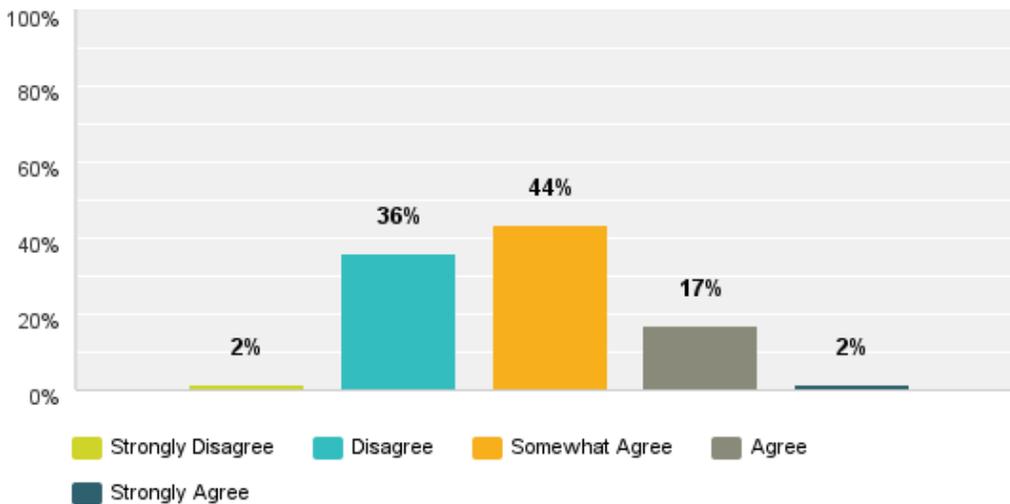
Part One: Winning at Retail through Field Labor Optimization

Competition at the store shelf is more intense than ever before. Consumer goods manufacturers that can get near-real-time visibility into retail conditions can beat their competitors by directing their field force(s) to rapidly seize opportunities down to the store level. This is the essence of competitive advantage because it transitions the field force from a “cost of doing business” to a “competitive weapon.”

What is the current situation at retail?

Improving in-store execution presents a significant opportunity for increasing market share and profits. However, this is nothing new. Consumer goods (CG) manufacturers have been deploying field forces to improve in-store execution for decades through some combination of the following: their own merchandising force, brokers/sales agents, direct store delivery drivers, or distributor/wholesaler channel partners. Despite these efforts, they are still not satisfied with their ability to execute at retail. Our survey data for the 2016/2017 POI State of TPx and Retail Execution for Global Consumer Goods and Retail publication shows that consumer goods companies largely recognize the ongoing shortcoming as follows:

Chart 1. Answers to the statement: “You are satisfied with your ability to execute at the store level.”



The responses are quite compelling. Only 19% of respondents are satisfied. We argue that “somewhat satisfied” is not enough to garner a competitive advantage. Even so, 38% are clearly unsatisfied.

76% of respondents said that they “have challenges finding tools that enhance (retail execution) worker productivity.”

We believe that the lack of timely, detailed data related to in-store merchandising is a key contributor to this inability to execute at the store level. And, year-over-year results in this satisfaction actually declined by 4 percentage points from the POI 2016/2017 survey. Additionally, other key indicators have also gotten worse over time. Research conducted by Nielsen in 2016, showed that product availability has declined by 38% in the last 3 years. While product availability is only one factor, based on our research, and supported further by the recent survey data, we believe that field forces are not as effective as they could be for a combination of 3 causal areas: people, tools, and retailer partners. Here we will summarize our findings from the 2016/2017 POI TPx and Retail Execution Survey:

People Issues

- 78% of respondents said they “have challenges finding qualified personnel who can use existing solutions.” For now we are giving the benefit of the doubt to the solutions and assuming that it is hard to find good people.
- 86% of respondents said they have issues with change management among their field force that is doing retail execution. 80% said that they have challenges “training and supporting new users as they come on board.”
- Among those organization that use brokers/sales agents in some way, we don’t find significantly different results. When asked if they “have challenges working through third parties, such as brokers, while having the quality of execution as well as visibility into market conditions,” 71% of respondents agreed or strongly agreed. Another 15% “somewhat agreed.” Only 14% disagreed. Thus, with a total of 86% agreeing to some degree, the results are largely the same as for a direct field force.

Implication: Finding, training, and retaining the right employees to staff a direct field labor force is difficult. Trying to do it through brokers/sales agents isn’t much better.

Tools Issues

- 76% of respondents said that they “have challenges finding tools that enhance (retail execution) worker productivity.”
- Only 55% said that their “retail execution solution provides the analytical capabilities required to make appropriate decisions for field based users at the store level.” However, 40% said that their needs are “somewhat” met, which means that only 15% truly have their needs met in this area. Thus, lack of visibility into opportunities at the store level cannot be translated into actions or possible actions by the field force.
- Non-field personnel have it only slightly better as 59% said that their “retail execution solution provides the analytical capabilities required to make appropriate decisions for office-based users.” But, as with the case of the field people, 36% said their analytical needs were “somewhat” met, so only 23% are truly having their needs met.

Implication: Tools are always secondary to the people who operate them, but the tools are largely transactional, not analytical, and largely do not help their users to sell more and sell smarter. This is true both for field and office based users. Additionally, we believe there are gaps in back-end systems required to convert what is seen in the store into actionable insights for whatever level of user.

Data Issues

Retailers have a vested interest in improving what happens in stores, but either cannot or choose not to participate in data sharing/gathering to make it happen. The following statistics from the POI Survey highlight how they do not improve visibility into retail conditions, which further creates blind spots:

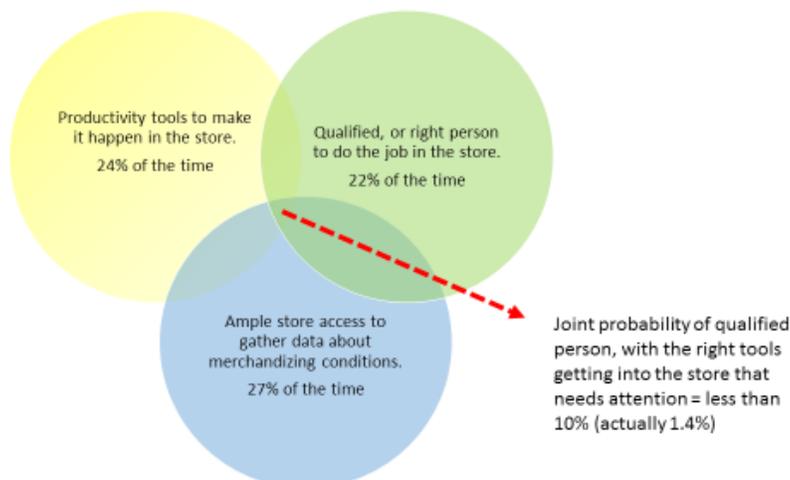
- Only 21% say that retailers share key data such as POS with them. As a result, their ability to use this data to see what is happening in stores is severely diminished.
- Similarly, when retailers do chose to share data such as POS, 86% of manufacturers said that there are issues with the quality of the data.
- Finally, 73% of respondents said that “they have challenges with retailers giving (them) sufficient access to their stores.” Thus, the inability to collect data and turn it into actionable insights severely impedes the ability to improve what happens at the shelf.

Implication: Retailers should be helping in the process but largely aren't.

It is not surprising that many CG companies see their field labor forces as a cost of doing business and not a competitive weapon. Much of this is attributable to the inability to mobilize their field labor forces on the right priorities based on real-time data as observed in the marketplace. Thus, the common approach of having a dedicated field force, utilizing brokers, or a combination of both, has significant opportunity. Manufacturers are largely coming up short on their own, as well as when executing through brokers, because of issues associated with the labor force, tools that are in play, or attitudes and behaviors on the part of retailers.

We recognize that there are possibly other factors. In some markets there are challenges with getting the field force to actually go into the stores because they can effectively “game” the system and idle away the day at home or elsewhere, only to enter a series of bogus store visits later on. We don't have data on this factor, but believe it falls under not having the “right people.”

One way of looking at how serious the deficiencies around people, tools, and data are, is to consider a case where all three conditions exist (per the bullet points in the previous section). All three are independent of each other, so the probability of having the right person with the right tools getting access to a store to gather data for a store that might need some attention is less than 10%. In fact, it is a lot less probable. Looking at this graphically will shed some light on why it is highly improbable:



We now look at how consumer goods manufacturers can augment and optimize their field force regardless of whether they go to market through distributors, where product is pulled through distribution centers with the field force only providing merchandising support, or through direct store delivery. Traditionally, this relatively new approach has been known as crowdsourcing.

What is crowdsourcing, and how has it evolved to be utilized in the retail environment?

At the most basic level, crowdsourcing is utilizing plentiful resources to perform some action in return for modest compensation. Because the resources are already near to the place where the action is to be performed, and they “compete” for the task in a sort of marketplace, the task can be done more quickly and efficiently than by dedicated resources that may be more expensive or have to travel further to execute the task. And, because they don’t get paid unless the task is executed properly with corroborating proof such as GPS coordinates of the visit, photographs of the shelf, and all the relevant fields completed in the information gathering process, the quality is enhanced.

As it relates to executing in retail stores, the crowdsourcing approach is utilized specifically to:

1. Collect data and spot opportunities or issues more quickly than through a typical field sales person who goes to the store less frequently, or not at all.
2. Compile the salient data through the use of software, interpret it, and push it to the regular field labor force that can act upon it at the store level.
3. Provide insight for managers so they can provide coaching, spot trends, and allocate resources as appropriate.

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In summary, crowdsourcing in the retail environment serves to help the field labor forces to avoid blind spots. A common misconception is that it is a replacement for a field force. In fact, it is not a replacement, but an optimizing agent for a traditional field force because its key role is the detection of issues and opportunities in the retail environment that can then be addressed by a merchandizer who comes and sets up a display or a DSD driver who makes an additional visit to ensure adequate product levels. This “division of labor,” as economists call it, uses the more abundant and less costly crowdsourced labor force to collect the data required to spot the opportunity, then mobilizes the distributor, merchandizer, sales agent, or DSD driver through software to address it. Thus, the traditional field force is used more efficiently and effectively by focusing it on actions that have been pre-identified, rather than simply going from store to store in a static daily route. Instead, they only go to the stores that require their attention, based on a set of business rules, so their efforts are truly optimized.

Another key distinction is that the crowdsourced field force does not typically handle the product or enter into the retailer’s back room. They are merely there to observe and report back quickly.

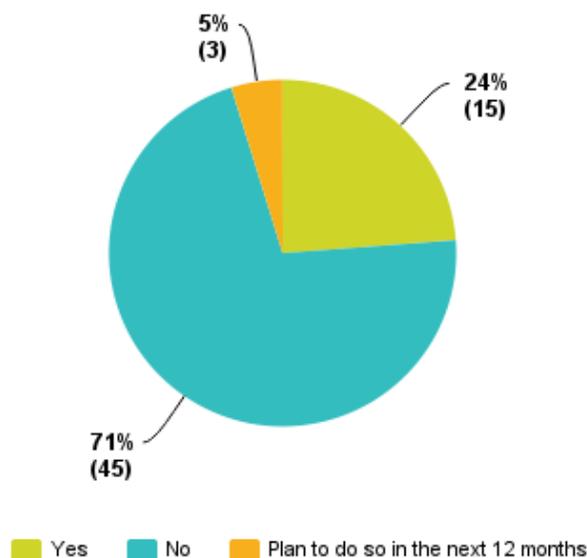
As we look more deeply into the actual activities of an optimized field labor force we can chart its evolution and how it delivers value.

How does crowdsourcing, done right, pave the way to Performance-Driven Merchandizing?

Crowdsourcing augments the activities of the existing field force(s) and focuses them on the activities that will yield the greatest return on those assets (vehicles, wages, managers, retail execution technologies) that have been deployed as part of the field force. And, because the crowdsourced capabilities increase the reach (more stores and cities), frequency (more often), and in more real-time (faster capture of the insight for any particular store). The result is a cycle of greater benefit through better performance. The performance improves over time through routine measurement because the crowdsourced component goes more places, more often, and provides visibility into blind spots that can then be quickly course corrected. Overall performance improves over time as the process is refined and that is why we call it Performance-Driven Merchandizing.

But now let's take a deeper look into how to do it right. It is important to understand that crowdsourcing of retail execution is proven, but not widespread, which means it can still provide a competitive advantage. It is best to see this graphically as follows:

Chart 2. Responses to the question: Do “you use crowdsourcing for performing store checks or other merchandising activities?”



Source: 2016/2017 POI TPx and Retail Execution Survey.

Hence, crowdsourcing is not an emerging capability because those, by definition, have less than 5% penetration. However, it is still a far cry from mainstream, as 75% of manufacturers still do not do it, let alone do it right!

“Doing it right” means the following:

1. Proper and standardized metrics. This means getting agreement up front on what is to be measured, how often, and what constitutes success. People often forget that the “K” in KPI stands for “key.” They then try to measure everything, as opposed to fewer things that matter. Once you have agreement you can move forward. But, without this agreement, you shouldn’t proceed. Otherwise you will never agree on whether you have succeeded, made progress, or failed altogether. Here is an example of how one company distilled down the key metrics that drive the business, grouped them in a logical way, and based on what a shopper sees in the market place:

Chart 3. Sample of key metrics from Performance-Driven Merchandising.



2. Visibility and timeliness. It is critical that you establish a routine for reviewing the information and understanding what components of in-store execution you want to view and with what frequency. You also have to be able to see the results quickly so you can act upon them. Timeliness is key because of the harmonious balance between finding the blind spots and performing in-cycle corrections through your optimized field labor force.
3. Store-level analytics. Often the value is in the details, and being able to see things at the store level can be critical. But it has to be in a format that makes it convenient and intuitive for the user. Therefore, multiple “activation” formats are required. The best practice is to:
 - a) Simply push an alert or report to a set of users based on role, geography, or another common factor. This also means doing so based on a set schedule so it is automatically received via email. This approach satisfies the bulk of those people in the value chain.
 - a) Provide data analytics and query access to some users through embedded Quri analytical/BI tools so they can drill down and create reports at will. This approach is more suited for managers and power users.

4. Scale. It has to be cost effective and easy to ramp up an effort at a market or entire country level. But what you don't want is a patchwork approach that includes only some major retailers or geographies. To do so means more silos of information. You want to get all the coverage from a single source.
5. Commitment to enabling people. At the end of the day, those who go to the stores are people, just like those who do the shopping are people. It is critical to be able to measure, train, and incent people in meaningful ways. The crowdsourced field force is already intrinsically motivated by payment for services rendered. The employee field force, however, greatly benefits from proper incentives. Such incentives have to be measured and linked to what is important and measured as part of Number 1 above. And, everybody in a value chain of command has to win or lose based on the same set of "cascaded" objectives.
6. Having a change management plan. As previously stated, our 2016/2017 POI Survey indicates that 86% of respondents have difficulty with change management when initially deploying field sales applications to their employees and 80% have ongoing issues as they bring new people up on an existing solution. Hence, change management is a huge issue with traditional field sales applications. However, having an optimized labor force based on executing in-cycle corrections will simplify the role of the current employee force because it will be less complex. It will initially require change management to adopt this new model as well as when new employees are brought on board, but thereafter will improve. For a more detailed treatment on change management for field sales organizations see <http://poinstitute.com/wp-content/uploads/2016/01/POI-Best-Practices-Change-Management-for-Sales-Organizations.pdf>.

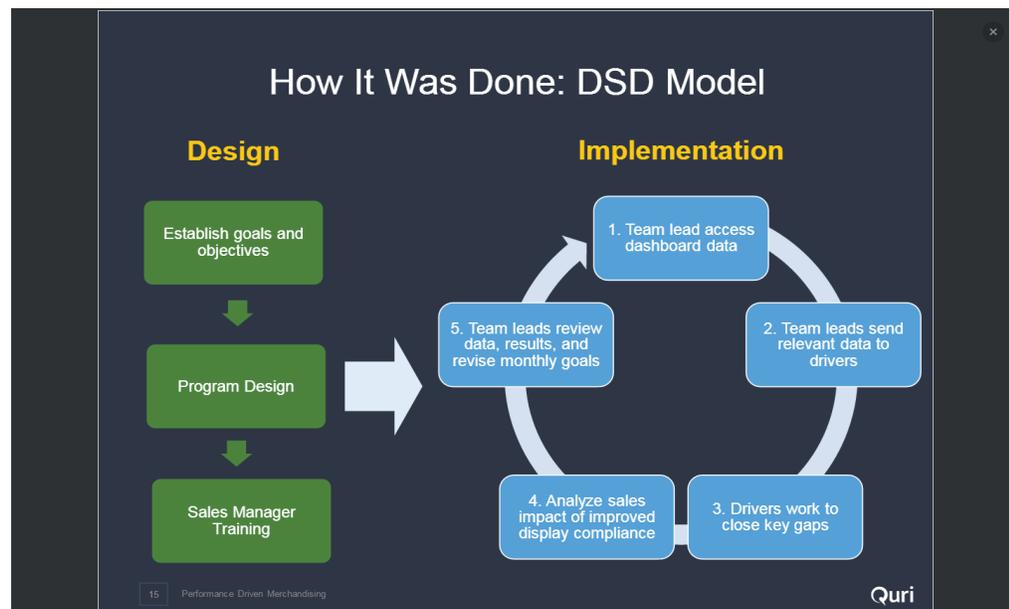
Field labor optimization is indeed a set of activities, but more importantly, the activities are continually refined and improved through metrics, corrections, and incentives until results are achieved.

Keep in mind that change management is not an issue with the crowdsourced contingent of the optimized field force because those assets self-select whether or not to participate, have their own mobile devices, and don't get compensated unless they fulfill the task.

Thus, with more division of labor, fewer moving parts for the traditional field force, and precise direction coming in from the crowdsource force, we have found there are far fewer change management issues. Nevertheless, it still has to be addressed.

7. Think in terms of cycles and continuous improvement. Field labor optimization is indeed a set of activities, but more importantly, the activities are continually refined and improved through metrics, corrections, and incentives until results are achieved. Here is an example of how one organization created a continuous improvement cycle based on these elements and achieved significant success:

Chart 4. Sample of continuous improvement approach for a field sales organization.



Notice how they focused on a cycle of continuous improvement and how activities #5 and #1 effectively close the loop on the Performance-Driven Merchandizing activities. This is greatly facilitated by having precise and real-time input from the crowdsource field force indicating what must be acted upon (activity #2).

8. Get the retailer involved in the process. Explain the results that you are trying to achieve. Translate them into what that means for the retailers in terms of their key metrics and incentives. Solicit their support in ensuring free access to stores. Keep them posted on progress. Involve them in celebration of wins when appropriate.

As you can see, this is a very different model from having a field force that has a static sales route for every day of the week, goes from store to store looking for what needs to be done, and hopefully spends some time getting it done - with some reporting of what was actually accomplished to follow later on.

We now move on to some of the specifics of the benefits that can be achieved through Field Force Optimization.

What are the specific areas of benefits that can be achieved through Performance-Driven Merchandising?

- Avoiding blind spots in the marketplace. Lack of visibility means loss of revenue and profit. It is just that simple.
- Being able to respond to market situations faster than competitors. This is due to the division of labor between those that are crowdsourced to find the opportunities in the market and those who are tasked with performing the in-cycle corrections.
- Getting better promotional results by increasing product availability and retailer compliance. In a subsequent paper we will deal with this in more detail, but it bears mentioning here because it is a persistent problem.

Having more strategic and mutually beneficial conversations with retailers through appropriate use of a common set of data.

- Reducing the overall cost of having a retail merchandising force, while increasing their impact. This is primarily accomplished by shifting the traditional field force from collecting data to selling more and getting product on shelves. This is the essence of the Performance-Driven factor when it is part of a continuous improvement cycle.
- Having more strategic and mutually beneficial conversations with retailers through appropriate use of a common set of data. Key account managers often have tussles with their buyers over data and what it means. Some data sources are based on samples and then extrapolated. Other data is based on census level findings but can be a bit dated. There is nothing more compelling than very recent, in-store data that includes photographs and actual observations.

These are some additional areas where the benefits are achieved, but nothing speaks to the value of Performance-Driven Merchandising more than actual results. In the next section we look at actual results that have been achieved.

What do current case studies point to as achievable within a short amount of time?

CASE STUDY: ADULT BEVERAGE CATEGORY

Situation:

- Significant opportunity to secure a larger share of display in the marketplace
- Help distributors execute better against display objectives in the promotion planner through a routine measurement and correction program

Approach:

- Design it right up front
 - Clearly define goals: (1) increase display compliance to promotion planner and (2) increase share of display vs. competition
 - Align on metrics:
 - Display compliance on own brands
 - Share of display versus competitive brands
 - Align on key retailers and distributors
 - Align promotional plans with routine in-store merchandising data collection
 - Create a merchandising dashboard to continuously track and monitor key KPIs that drive success: display compliance and display gap to competition

- Implementation plan for success
 - Training with sales managers and with distributor partners
 - Aggressive but achievable roll out
 - 1st Week: Data collection launch and Q/A
 - 2nd Week: Sales managers share exception reports with distributors
 - 3rd Week: Distributors have opportunity to make corrections in store
 - 4th Week: Re-audit to measure the improvement
 - Use dashboard to review weekly as a way to track and have a meaningful discussion with distributors
 - Daily alerts to direct distributors to most significant opportunities
 - Assess results and set goals for next month

Results:

- 2-month consecutive display compliance improvement, significantly above competition
- 4 of 5 distributors showing double-digit percentage increases in execution
- Over 3,400 email alerts sent out in back half of 2016 for in-cycle corrections
- Over 75% of sales managers and distributor employees logged into the Quri dashboard to review their data and opportunities
- Dashboard and data routinely reviewed in meetings with distributors
- \$13.9MM value capture opportunity identified over 2 months

Next Steps:

- Find ways to fully integrate merchandising data set into additional company processes and systems
- Automate input and output of data between Quri and the manufacturer
- Expand training and support for sales managers and distributor partners
- Drive utilization of Quri dashboard to above 90% from 75% in first 60 days
- Expand program to other product segments

Why Quri?

As a leader in what was once called crowdsourcing but has evolved to become Performance-Driven Merchandizing, Quri offers the combination of:

- High level of expertise as evidenced by length of time in market, exclusive focus on the consumer goods industry, and an impressive client list consisting of more than 50% of the top consumer brands currently using Quri.
- Scale based on a current ability to reach 150,000 stores in 6,000 cities nationwide.
- Proven ability to execute for both large and small companies.
- Level of innovation with analytics capabilities for turning data into insight and action in near real-time.
- Strength of client references based on proven results.
- Vision to expand coverage to include more stores in more cities and more analytical horsepower to improve results.
- Ability to dovetail with your current retail execution efforts based on your unique needs.

Offering a complete set of end to end services from helping to set up KPIs to data collection to the analytical tools for turning the data into actionable insights.

Who to contact?

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About the author

Dale Hagemeyer leads the research, best practices, and advisory function at POI and has been active on the POI Board since its inception. Previously, he was a research vice president and managing vice president at Gartner for 15 years. There, he did research in the application of technology to the business processes of trade promotion and field sales automation for consumer goods manufacturers. Prior to Gartner, he spent 14 years in management positions related to the promotion and distribution of products at Sunbeam Corporation, The Quaker Oats Company, PepsiCo, Kraft Foods, and Kroger. He also fulfilled an international assignment in Mexico from 1995 to 1996. He has served on various industry advisory boards for trade associations and industry periodicals. He holds an undergraduate degree in finance from the University of Utah and an MBA from the University of Chicago.

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About the Promotion Optimization Institute (POI)

POI brings together manufacturers, retailers, solution providers, analysts, academics and other industry leaders with the specific objective of collaboratively improving the promotion and distribution of consumer goods. Members of POI share cross-functional best practices in both structured and informal settings.

Additionally, members benefit through our industry alliances, the Certified Collaborative Marketer (CCM)[™] program, and industry-leading summits around the globe. POI aims to instill a financial and metrics-based discipline not typically found with other trade groups. The goal of our innovative approach is collaborative promotion optimization. The focus is on the customer/shopper through sales, marketing, and merchandising strategies. Executive advisory boards keep us apprised of industry needs and help us provide desired outcomes for members, sponsors, and academia.

For more information:

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