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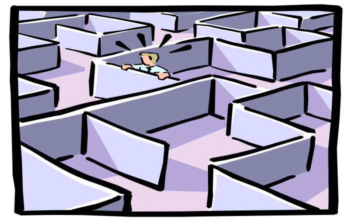

Developing Solutions
For Your Business

The Retail Coverage Dilemma

The latest attempt of a large retail chain to implement their category management initiatives by assigning “fair share” coverage and related expenses has created a great deal of discussion and concern within the industry for consumer package goods manufacturers and sales agents.

The implication of these initiatives for retail sales organizations and those costs associated with this is staggering. Recent industry estimates indicate the rate of continuity coverage to sell and merchandise products is far less than 50% of the time and expense devoted to retail investment. New store resets, store remodels and category management implementation are now the primary focus of retail sales coverage. While these are important services that can produce sales, they have reached a level where they are excessive at some retailers and the time and investment necessary has passed the point of diminishing returns. The addition of the “home store” coverage concept has made it more difficult for retail sales people to sell, merchandise, and communicate key sales message to store management.

CPG manufacturers are increasingly placing their retail representation with sales agents or third party service providers who are being squeezed from both sides.

Some retailers are demanding program participation and are requesting a staggering numbers of hours to complete retail coverage requirements. Most of the large national and regional sales agent companies do not represent store brands but are requested to provide services for these products within this equation. These additional expenses for sales agents offer no alternatives to offset the need for more of their resources through corresponding revenue.

Many of the largest CPG manufacturers are negotiating reduced sales agent’s commission rates as they acquire companies, merge divisions, and consolidate retail coverage representation. Those manufacturers that provide a direct sales force for retail coverage are succumbing to the same cost and coverage expenses as the sales agents.

In addition, many manufacturers are paying retail coverage commission for store brands, which are not being reflected in their "fair share" participation requirements.

This will not continue as manufacturers and their representatives, direct retail sales force and sales agents, are pushing back and demanding that "fair share" be appropriately shared by all of those with retail distribution.

Manufacturers are already investing increasingly more dollars supporting their trade promotion efforts that are designed to maximize sales with the consumer at the retail stores. Many are also investing additional resources and state of the art tools for category management and information sharing initiatives that cost millions of dollars, only to find that these initiatives fall far short of intended objectives. A number of large CPG manufacturers and their sales agents are already dialoguing with retailers on this subject. The medium to small companies with less leverage may suffer the most in this struggle.

Meanwhile, retailers who have historically not requested much support are watching this latest situation with great interest. They are already calculating the additional resources and dollars that will be assigned to these programs and will no doubt want their own "fair share".

The next 12 months will be critical for CPG manufacturers of all sizes but particularly for the small to medium manufacturers and their brands. They will need to re-evaluate their entire go-to-market sales strategy to insure they make the correct decisions regarding expenses and resources for trade promotions, retail sales organization and category management initiatives.

Deeb MacDonald & Associates, L.L.C. understand the retail coverage dilemma and are prepared to provide assistance with analysis and solutions that will address these issues while continuing to build profitable sales.

For more information, please contact us at:

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