



## ACHIEVING ROI:

Where Does It Happen in CPG / Retailing?



IN YOUR TRAVELS ABOUT THE CPG INDUSTRY, what noteworthy initiative or investment have you seen that impressed you because it **actually produced a meaningful ROI for a CPG company** and / or a retailer? In your view, **how and why did it work?** Would investing in this tool or initiative make sense for all CPG companies? If not, where *would* it make sense?

### ■ LANCE ANDERSON, CROSSMARK

WITHIN THE CPG INDUSTRY THERE ARE MANY AVENUES to achieve meaningful return on investment. The following three examples highlight CPG manufacturers who received ROI in the areas of retail coverage. In each case, these companies maximized their ROI through an understanding of their costs, the use of specific measurement tools, and the design of programs focused on incremental growth.

The firms most successful at measuring and delivering ROI have the ability to understand all the cost inputs and the true profit achieved from conducting the activities. Simply put, ROI is a measurement tool used to relate the success achieved (profit) to the investment required to generate it.

In its simplest form, **ROI = earnings/investment**. This is a straightforward calculation, but complications arise when firms cannot ascertain the true dollar investment because of undefined cost allocations and other variables. Often, cost generalizations are made that seem directionally accurate, but in aggregate produce a distorted view and compound poor decisions. Companies must be able to **unbundle all costs**, which, in turn, will lead them to the understanding of contribution

margin and the ability to achieve ROI.

*Margin* is understood through the unbundling of costs; *activities* are understood through measurement tools. Companies that seek to increase their ROI must understand that ROI is ultimately the result of margin and activities.

In the case of retail coverage, the best measurement tools are syndicated data and/or retailer POS data. Syndicated data and retailer POS data *at the store-specific level* is the best because it allows the customization of activities and measurement of effect *at the point of sale*. Without these specific measurement tools, companies will be able to make only *general* conclusions about *general* activities.

**RETAIL COVERAGE CANNOT REDUCE THE COST OF GOODS** or increase profit margins; instead, it contributes to ROI by **maximizing sales and increasing contribution margin**. Therefore, in order to achieve ROI, retail coverage activities must be *designed for revenue generation*. Any activity that does not specifically return sales should be eliminated. Many companies further evaluate the activity set by establishing test and control environments and by measuring year-on-year growth (minus all extraneous variables).

■ **SALES GROWTH AND ROI:** For example, a CROSSMARK client faced an out-of-stock problem due to limited shelf space in a high-turn category. Our

retail coverage approach included a Dedicated Team featuring flexible territory routing, direct interaction between the client and retail representatives, store-level activity assignment and the use of POS data to measure and constantly refine coverage and activities.

The results of this model yielded a **net five-percent growth in annual sales** that was directly attributed to the activities. The contribution margin of the incremental five percent in sales exceeded the retail coverage investment.

The success of this model was due to **thoroughly understanding increasing sales as a function of ROI and having the POS data to accurately measure the effect of different retail activities by store and retail visit**. Once the knowledge and measures were in place, **actively seeking and using feedback** helped to further refine activities that directly related to increased sales.

**THIS APPROACH WILL WORK FOR MANY CPG COMPANIES**, provided they have a portfolio of products that can support a sustained investment in getting the activities and measures right.

■ **YEAR-ON-YEAR SALES GROWTH AND ROI:** In a second retail application, a CROSSMARK client **established a firm hurdle rate that had to be achieved** to provide a positive return on the retail coverage investment. This model established a test-and-control environment

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that measured year-on-year sales growth.

Each week, CROSSMARK worked with the client to review performance data and adjust in-store activities, in order to consistently improve sales growth. After an extended period of time, the data and knowledge gained allowed us to **prescribe specific activities for specific events** (promotional and seasonal). Through this rigorous procedure, the CROSSMARK team was able to **exceed the client established hurdle rate by 52 percent.**

This coverage model was successful because, like the previous example, the client had a **firm understanding of its costs** (including net investment cost), the use of a **store-specific measurement tool**, and a coverage design focused on increas-

ing sales through specific activities.

■ **ACTIVITY-SPECIFIC ROI:** Working with a third client, CROSSMARK was able to **establish a value for each activity completed at a specific store location.** Out-of-stocks and distribution voids were given a sales and contribution margin dollar amount. Through the use of representative-reported activities and store-specific data, ROI was calculated by aggregating the value of the completed activities (net earnings) and dividing by the coverage investment.

This retail effort was applied to a continuity set of stores and a variable set of stores determined through opportunity gap analysis. The average ROI achieved after multiple coverage cycles was in excess of \$3 for every \$1 invested.

Like the previous two examples, it was the **ability to work in specific detail** (costs, margins, and activities) that led to a **positive and sustained ROI.**

**CONCLUSION:** ROI is a widely used measurement tool because it is intuitively appealing. Like any tool, it is most effective if you *understand how it works* and *under what conditions* it should be used.

For CPG companies using retail coverage, ROI can be achieved if they understand all of their cost variables, use specific measuring tools, and design a coverage model that is focused against increased sales. These three criteria can be attained by most CPG companies and make sense in our environment of intense competition. ■

