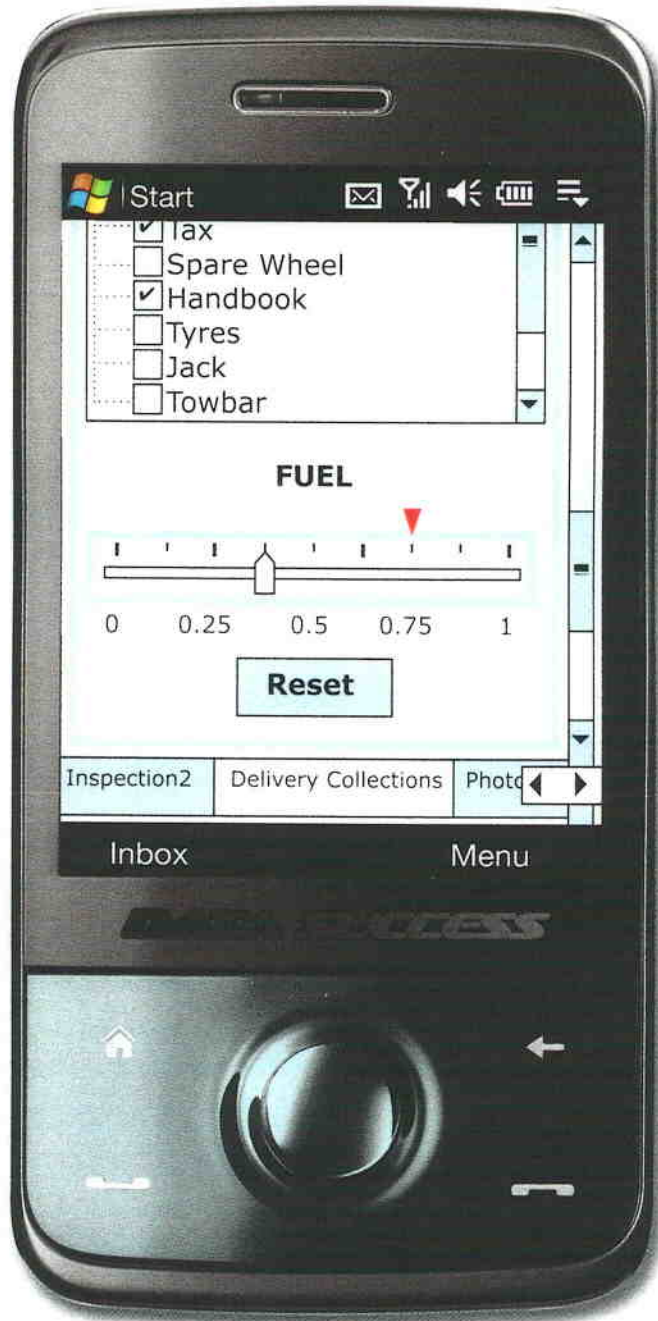




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# Taking Risk Off the Shelf

Frank Wainwright travelled to Germany to open... The AdOSA file



**What does Advanced Shelf Optimisation have to do with Field Marketing? The question intrigued me and to answer it, I recently found myself on my way to a conference on this subject in Cologne. Key players from the retail, wholesale and logistics scene in Europe would be there. Amongst the speakers were Rainer Thomas, MD and COO Retail, Service Innovation Group, a business known to me best for its outsourced sales and FM activities across Europe.**

I wanted to find out why Service Innovation Group was positioned as key player amongst this thought-leading logistics crowd and to understand more about why Rainer Thomas was billed on the conference list to present alongside Prof. Dr. Wolfgang Stoelzle, chair of logistics management, University of St Gallen, Switzerland.

So I went to the event, "St Galler AdOSA-Fachtagung" with an open mind on expectation and with appointments to interview these two principals.

Service Innovation Group (SIG) is very well known to me as a key outsourced sales and marketing resource across Europe – or in other words it is one of the major players in 'field marketing'. SIG has a division for this, SIG Sales, and it has driven success across Europe deploying sales forces to trade and retailers, merchandising, optimising categories and also selling direct to consumers.

At the conference, Rainer Thomas would be focussing on another division of his business, SIG Retail. SIG Retail focuses on logistical issues such as the supply chain, replenishing shelves, installing new fixtures – creating an efficient platform in store that in turn builds a virtuous customer circle to the benefit of both the store and all the products it sells.

On meeting Rainer and Wolfgang it soon became apparent that there is a common denominator between optimised sales and optimised retail logistics that allows SIG to make a compelling case

for being involved. That common denominator might be called 'risk-expertise'.

By outsourcing sales, brand owners can typically pass on the risk of managing the sales force and meeting sales targets to the agency who rely on their expertise and efficiency to achieve sales expectations for the brand – sometimes with the caveat of not being paid if the main Key Performance Indicators (KPIs) of the contract are not met. Similarly, by outsourcing retail logistics the retailer can pass on any associated risks to the agency, also with the caveat of not paying the agency if the KPIs in the contract are not met.

Before looking at the nitty-gritty of all this, there were some obvious questions to ask: "How on earth do you make stock replenishment as accountable as sales? How do you know that someone unpacking a pallet is doing so with optimum efficiency? How can an agency take on the risk of something like this on behalf of the retailer in the safe knowledge that typically it will beat the KPIs and so earn a profit?

The answers were all standing next to me personified in the shape of Wolfgang Stoelzle. "This is where the neutrality of the university has business benefits", he commented. Stoelzle explained that St Gallen has compiled a data pool. Retailers have put their logistics data into this pool and it has been anonymised, taking away the fear of sharing information with competitors. Retailers can pool their data at the university allowing a large number of averages to emerge. So it is known, for instance how long it takes on average to replenish one pallet of mixed products onto the shelf, and the individual stores and store groups can benchmark their current performance against that average. The agency, in this case Service Innovation Group, can then agree to improve that benchmark by taking on the job of replenishing the category or store, improving the store's performance and meeting a realistic improvement target. If the agency can then shave time off the new target then it will make a profit per pallet. It is a process driven performance target,

reliant on the agency bringing in knowledge and experience that it believes will outperform the store's own replenishment capabilities. For the store it looks like an obvious win – more work gets done without having to manage the replenishment resource directly and it only has to pay out when pre-agreed targets are being met.

I asked Rainer Thomas if this type of activity is delivering results for his retail clients already and he shared some confidences that show that SIG has moved far beyond testing, has rolled out with some clients and is already in the process of securing other major retail/wholesale client based in the sector. Structured, in depth relationships have been forged and SIG is turning this in-store logistics process into an exact science. Large teams of stock replenishers are entering stores from 8pm-12pm and unloading pallets from a given staging area. In and out data is used to assess expectation, forecasting volumes prior to delivery from the warehouse and reporting any shelf ranging issues arising straight away. Many hours of activity are being saved every day and product availability is enhancing sales for the store. "We have arrived at the point where we can normally guarantee an improvement in terms of replenishment time and cost that is upwards of 20%", said Rainer Thomas, "Most of our competitors operate on a pay-per-hour basis but our approach is process-oriented."

I asked Stoelzle whether there were any exclusive relationships in regard to his data pool, but it seems not. Participants can pay to join the benchmarking study and to use the anonymised benchmarked data and the analysis of it, commercially. AdOSA, Stoelzle feels, is fairly uniquely placed in terms of this research as the St Gallen team brings in expertise from both logistics and marketing.

AdOSA is certainly operating in a cross-functional area, that is neither exclusively logistics nor exclusively sales and marketing. Is this type of in-store logistics the type of work a marketing sector magazine should even be covering?

The short answer here is yes. The concept of Field Marketing first came about to solve a problem – to make sure that brands got the presence in stores that they had agreed or paid for. Now – witness Sainsbury's – the stores feel that they are getting their own house in order and they do not want or need to be so reliant on help from brands to maximise sales. They want control over the restocking of shelves at category levels – but to take control they need to prove their excellence consistently – or the brands that do feature on their planograms will have room for complaint.

Another signifier of industry trend came with the silver winning award FM award entry from Elevate in combination with Musgrave this year. It showed clearly how implementing Elevate's plans for core ranging and merchandising the bestselling products in Musgrave's Londis stores has had a big effect on sales in those stores.

As more retailers appreciate the direct benefits that field marketing can bring the opportunity grows for FM agencies to develop more strategic relationships with them. The advantages seen by retailers in sales

of own-branded products merely increases the demand for FM services by retailers and underlines the pressure on agencies in the industry to keep pace. This also affects brands. Brands that want to compete with own-brands will want to have a very good understanding of the supply and restocking procedure in order to know of any reduced callage recommendation and also to understand what tactical promotion opportunities arise.

With one retail client SIG is now extending its relationship from instore logistics to driving up shopper membership (signing up new customers) and activating its own-brand sales promotions direct to the shopper. The customer journey from home/business to check-out is therefore becoming closely allied to the product's journey from the warehouse to the check out.

How much of this changes the picture of what FM agencies do? Actually, not a lot – especially for agencies that already manage categories or that already ally shelf-installation and shopfitting to merchandising and selling. FM agencies could only ever truly influence a brand's long term performance in store by developing a very close relationship with the store as well as the brand. The basic capability is already there – expertly managed human and logistical resources.

So, what appears to be the 'new' in AdOSA? The 'new' in the AdOSA development hinges around the shared information for benchmarking purposes, uncovering previously untapped efficiency potential in instore logistics. There is also innovation from SIG. The new thinking has opened up new potential that SIG is exploiting. The agency is using its human resource and activity optimisation to meet process-oriented targets. It is offering clients a risk-free proposition attached to a typical proposition of a 20% time saving. Beyond this 20%, by blending sales and logistics the retailer has the opportunity to extend the relationship and grow it.

There are many reasons to feel that 2010 might see much stronger strategic outsourced alliances develop at the top level of the FMCG industry and AdOSA is surely one of them.



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