The Next Frontier In Retail Activation: **Agile Execution**

Retail Activation Whitepaper Series

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Contents

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Premise

This whitepaper proposes a way to significantly increase the effectiveness and results of in-store promotions through improvements in retail execution well beyond what has been possible to date.

Overview

Agile Execution is the ability to quickly measure and correct retail execution performance at the front end of promotional periods, new product launches and category resets, to (1) significantly improve the sales results and ROI of these programs, and (2) diagnose the underlying executional challenges to improve execution and sales performance going forward.

Why It Matters

"Agile execution gives me the ability to tangibly impact the success of our programs and drive sales – which ultimately helps me be a better marketer."

Rachel Tarvin, Shopper Marketing Manager, Starbucks

"Agile execution allows me to view, correct and improve our shelf conditions within days after launch, so we can demonstrate great execution and sales lift to our retail customers."

T. Fuqua, Brand Manager, Tyson Foods

"The biggest challenge with retail execution is simply "not knowing what you don't know." It is impossible to see every execution, so you assume everything went flawlessly – though that is not always the case."

Rachel Tarvin,
Shopper Marketing, Starbucks

The Problem:
Lost Sales from Poor Execution

Retail Execution Is Hard.

Retail execution ranks as one of the most complex, labor-intensive operations in our consumer economy. Millions of items are touched multiple times on the way from the plant to the shelf every day across the U.S. and worldwide. And complex labor-intensive operations inherently carry error-rates that are only partially mitigated by work-flow systems. The remaining error rates remain a structural barrier to reaching "full execution." Much like the immovable barrier to full employment, called "structural unemployment," retail execution carries a structural level of non-compliance due to human error.

You Can't Fix What You Can't See.

Brand managers, shopper marketers, sales managers and retail executives work in offices. But their products sit on tens of thousands of shelves spanning thousands of miles. And in-store programs change monthly or weekly. Without webcams on every shelf, they can't see how their products are being presented to shoppers. Even if they could, they couldn't efficiently measure and respond to non-compliant conditions of their products and programs across this vast an array of shelves. We call this problem the "Retail Blindspot."

Current Field Representatives Are Challanged to Respond.

Field execution representatives who set the shelves for Brands are theoretically in a position to spot execution gaps, but only when they are in the store. In reality, field reps are in stores 45 to 60 minutes every 4 to 6 weeks, responsible for thousands of SKUs. So their ability to systematically and consistently inspect and report on the non-compliant conditions of SKUs they represent is inherently limited – especially given the unpredictable nature of troubleshooting problems they find in real-time. It's the nature of a highly distributed, high-touch, full-time field execution force and the economics of field execution.

As a Result, Execution Performance Remains Alarmingly High.

As a retail intelligence company, Quri has conducted over 1,300 execution compliance studies for FMCG Brands in grocery and mass channels. What we found over the 12-month period from July 2012 to June 2013 across all customers was that non-compliance in three key areas was much higher than conventional wisdom suggests.

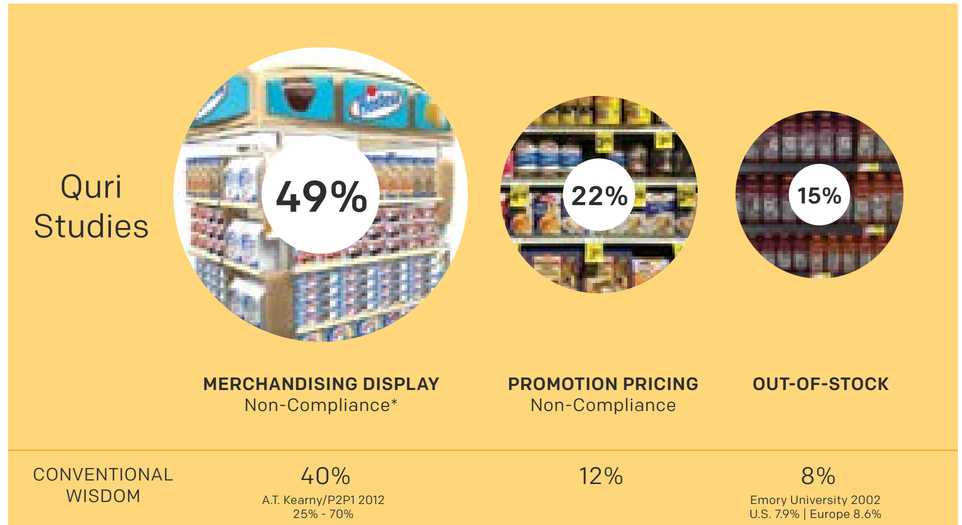

Fig. 1: Execution Non-Compliance Averages

(*Source: Aggregate of 12 months of Quri in-store audits for FMCG products in grocery and mass channels (July 2012 – June 2013)

As shown in Fig. 1, merchandising display execution performed the worst, with 49% of all planned displays actually missing. The most recent industry study on this metric was an A.T. Kearny/P2PI study in 2012, showing an average of 40% non-compliance (ranging from 25% to 70%).

Promotion pricing non-compliance was the second worst performer, with 22% of promotion pricing not being set. Out-of-stock was not far behind at 15% – almost double what Emory University reported in a 2002 study in both U.S. and Europe.

These data confirm the natural limitations of labor-intensive processes in retail execution. Given that, we decided to study the behavior and impact of execution shortfalls during critical merchandising and promotional periods, the lifeblood of retail revenue.

Drive-Time Economics:
In-Market Correction Captures Lost Sales

The Importance of Drive-Time Events

Key drivers of revenue for brand manufacturers and retailers are the promotion and merchandising events that fuel major revenue peaks throughout the calendar year ("Drive-Time Events"). Fig. 2 shows impactful drive-time periods in grocery and mass channels over the calendar year.

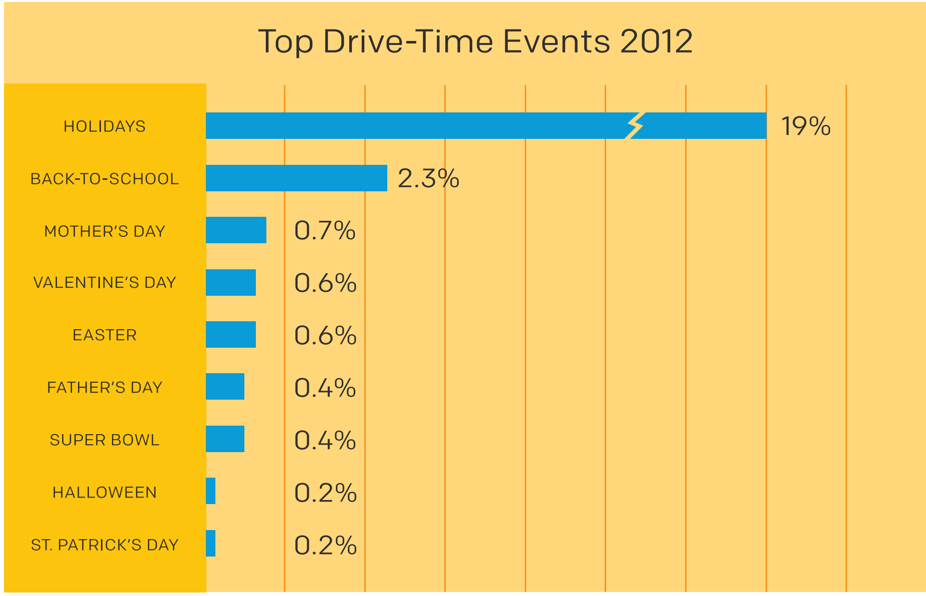

Fig. 2: 2012 Top Drive-Time Events . Percent of Annual Retail Sales.

(Source: NRF 2013)

The total revenue generated during merchandising periods for grocery and mass channels is 25% of the total annual revenue generated in those channels. These events are peak periods of investment – from trade funds for promotional discounts, to national and local advertising, to merchandising displays, POS materials and in-store execution. This is why ROI has become such an important metric for key marketing and sales professionals at Brands.

Given the importance of drive-time revenue and the need for efficient investing in the programs that drive these revenues, we looked closely at the impact that retail execution has on the revenue and ROI of drive-time periods.

Drive-Time Model

We developed an in-depth drive-time economic model that maps key execution metrics to the revenue model of virtually any brand doing a two-week drive-time event. For any brand and any product, we can input the following values to determine the sensitivity of execution performance on retail revenue:

- Specific brand's product and associated promotional and everyday prices
- Number of stores in which the product was carried
- Shape of the underlying drive-time demand curve (e.g., index of likely consumer purchase behavior on each day of the event)
- Execution variables of stock availability and promotional pricing

We used this model to plot the drive-time revenue curves of over a dozen different brands for a "standard two-week drive-time period," such as 4th of July or Back-to-School. With the ability to adjust the underlying demand curve, we were able to simulate any two-week promotional period of the year. By inputting different execution compliance rates (e.g., 10% Out-of-Stock or 20% Promo Pricing Non-Compliance) for a given product and promotional period, we were able to plot two revenue curves:

- **Actual Sales Curve** – daily revenue throughout the drive-time period reflecting the revenue lost caused by execution shortfalls.
- **Full Execution Sales Curve** – daily revenue if execution compliance were 100%, i.e., the revenue you could realize if your company executed flawlessly at retail.

"Beyond the most basic cost of less impactful sales due to lack of execution, you also lose valuable brand awareness and engagement with shoppers. Further, without knowing where the executional flaws are, you lose the ability make definitive changes that would increase the success of your programs and potentially help you secure bigger and better programs in the future."

Rachel Tarvin,
Shopper Marketing, Starbucks`

The Cost of Imperfect Execution – Lost Revenue

The drive-time revenue curves in Fig. 3 represent the revenue performance over a two-week period for a center-of-store, national food brand in grocery and mass channels. The Actual Revenue curve reflects average execution compliance levels they have experienced over the past six months – 15% out-of-stock and 20% promotion price non-compliance (promo pricing not being set).

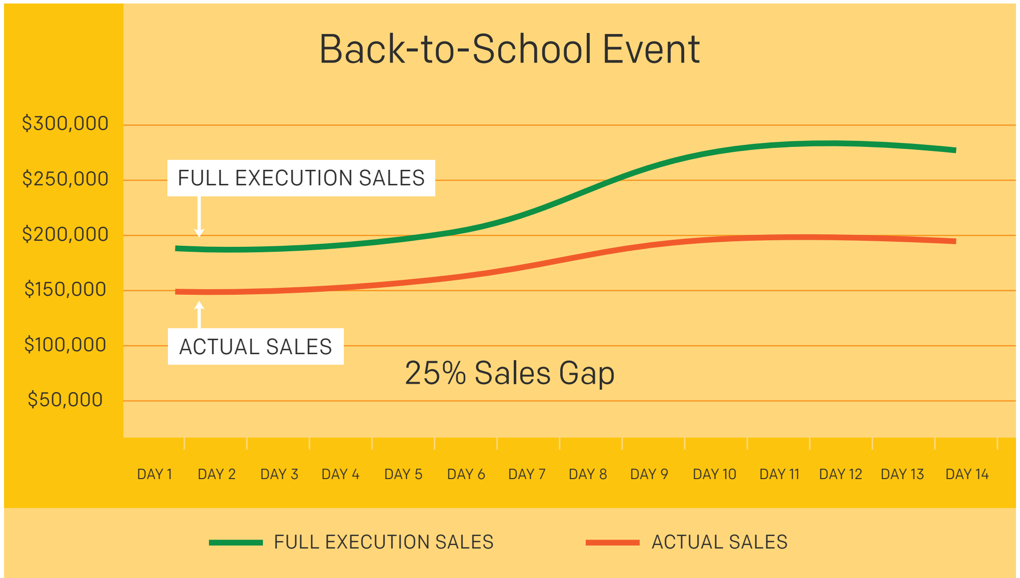

Fig. 3: Revenue Gap Caused by Execution Gaps

The drive-time model shows that the revenue gap between actual and full execution in this case is 25% – i.e., the revenue would have been 25% higher if execution was carried out perfectly. Of course, as discussed above, in a complex, labor-intensive activity, "perfect" is a state no brand or retailer can achieve. But some do approach it in certain areas of execution (e.g., the 1.7% out-of-stock level that a large multi-national food brand achieved during the past 4th of July drive-time event).

Closing the Gap... In-Market

The image of this revenue gap begs the question, "How can we close that gap"? Brands regularly conduct "post mortems" after major promotional events to determine what they could have done to achieve greater sales and ROI. That's a smart practice to help improve execution over time. The question that we asked is, "Can the gap be closed **during** the drive-time event?" to drive higher sales for the event in market now.

Here's what we found out...

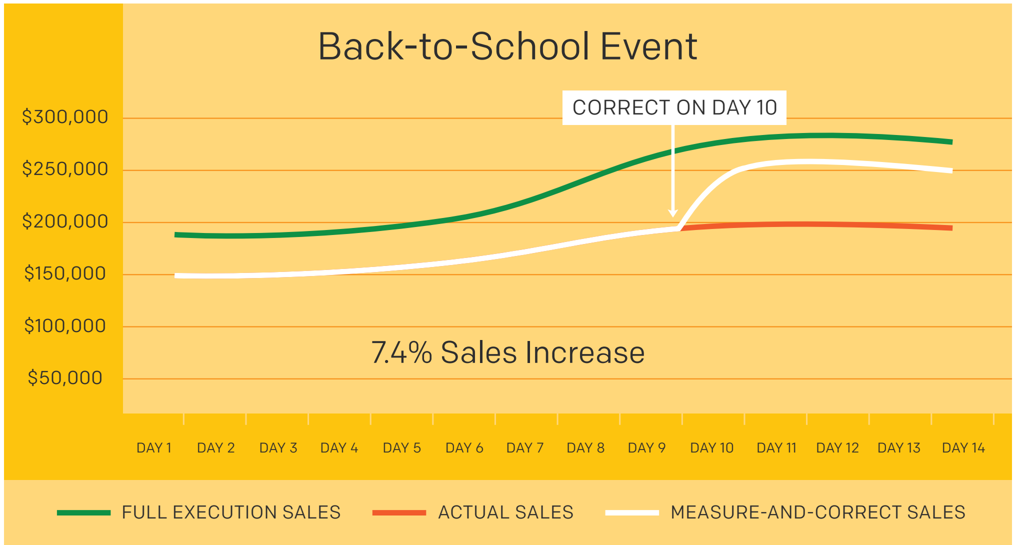

Fig. 4: Revenue opportunity from measurment and correction.

If you can measure store-by-store execution gaps and then correct these gaps before the drive-time event ends, you can close the gap on the remaining days of the event. Fig. 4 shows the impact of measuring and correcting the gap on Day 10 of the two-week event. The benefit is a 7.4% increase in revenue for the event overall. [Note that the "corrected" revenue curve (in white) does not reach the "full execution curve" because the correction process is also labor-intensive. We assume that approximately 80% of the corrections are properly completed.]

What if you could measure and correct the execution gap in **five** days?

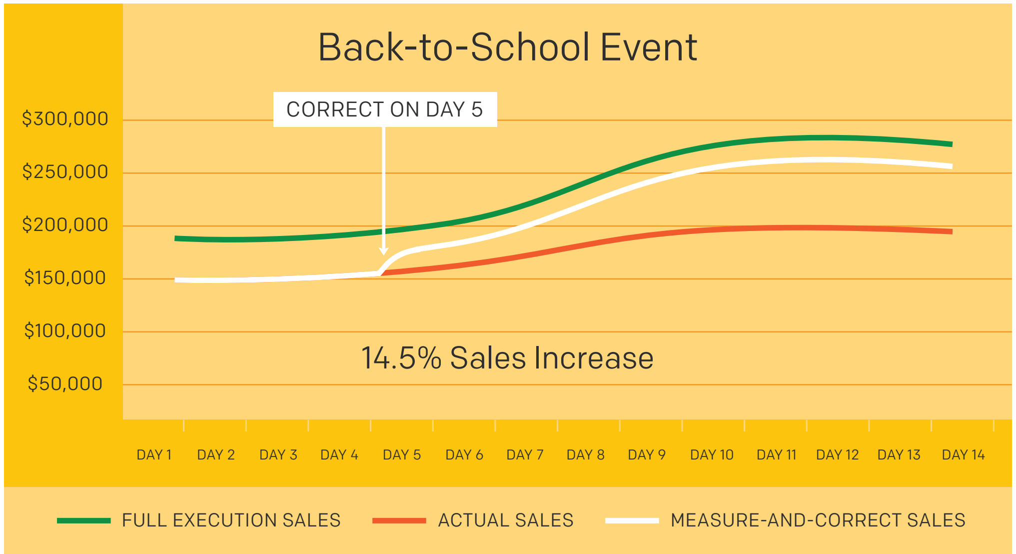

Fig. 5: Revenue opportunity from measurment and correction.

This "five-day correction" graph shows that a much bigger portion of lost revenue is re-captured, driving a 14.5% increase in sales. The conclusion? "The faster you measure and the faster you correct, the more revenue you re-capture."

How broadly does this apply? From the modeling work we did, it applies across any brand, any product, any price and any channel.

> *"Agile execution gives you the visibility to understand actual execution, and then do something about it. It allows us to fix short term issues but also identify more systemic issues that can be addressed for future events."*
>
> Rachel Tarvin,
> Shopper Marketing, Starbucks

Proposition: Agile Execution
Measure, Correct and Learn

Drive-Time Economics Points to Agility

Our analysis of drive-time economics led us to the hypothesis that "getting agile" at the point of launch of any promotion/merchandising program, new item launch or category reset to quickly find and correct the inevitable execution lapses will lift sales during drive-time periods. Applying the principles of "agile development" used in the software industry, and more recently "agile marketing" used in a broad range of industries, we developed the concept of "Agile Execution."

Just as product managers use a rapid measurement and response process in product design, Agile Execution uses a rapid execution measurement process immediately after the launch of a program, followed by an equally rapid correction process, significantly reducing the non-compliant conditions for that program. As part of the measurement and correction process, information is gathered and analyzed to provide insights on the underlying execution processes to learn how to improve execution performance going forward. Each time a new program is launched, the use of this measure-correct-and-learn cycle provides additional feedback and learnings that continue to grow execution effectiveness and sales results.

Practical Workforce Considerations

In theory, the use of Agile Execution does lift the revenue of drive-time events and on-going promotions, the degree of lift depending on the extent of non-compliance and the speed and effectiveness of measurement and correction. Until recently, the cost of measurement at a regional or national scale using full-time employees has been prohibitive because of the geographic density required to maximize auditor utilization.

With the advent of smartphone-enabled crowdsourced workforces, where geographic density already exists and workforce utilization is no longer an issue, the cost of measurement is significantly lower. This game-changing shift in distributed workforce economics has enabled a new category of field measurement companies, often referred to as "crowdsourced retail intelligence" companies (of which Quri is a member). Agile Execution is an extension of the retail intelligence model with two key components added—correct and learn.

Agile Execution

Fig. 6 shows the three components of Agile Execution that drive execution and sales lift – short term and long term.

Fig. 6: Agile Execution Loop

1. Measure—Using a geographically-distributed crowdsourced workforce, quickly and accurately measure store-by-store execution performance at retail stores in the Brand's target markets, including photographic proof of the data collected.

2. Correct—After assuring the quality of the measurement data, immediately send store-by-store correction alerts to the field teams that affect corrective action – the brand's retail execution team, the field execution force they work with and/or their the brand's retail partners.

3. Learn—Utilizing the data collected in the measure and correct modules, "learn" is an analytics module that provides insights and diagnostics to understand the underlying drivers of executional failures to guide the process and organizational improvements to drive better execution and sales performance going forward.

Challenges & Opportunities

Challenge: Change Management

Our analysis of drive-time economics led us to the hypothesis that "getting agile" at the point of launch of any Agile Execution carries great promise for improving retail execution quality and sales. But inherent in moving to "agile" is change: change in how field execution reps allocate their in-store time during "correct" cycles, change in the deliverables third-party brokers provide to Brands during the correct cycles, change in agreements between brokers and Brands, change in how brands work with retailers to ensure high performing in-store promotions.

Some of these changes carry hard costs. One-time costs, such as IT integration to connect correction alerts from Brands to the CRM systems DSD/broker forces use to notify and prioritize individual store reps through their mobile devices. On-going costs, such as incremental time for store reps to respond to correction alerts by replenishing stock, changing prices or resetting POS materials.

All carry time costs upfront, for thoughtfully considering the process changes needed during critical handoffs, changes in reporting to support the "learn" process, and changes in how store reps' time is prioritized. Both one-time and on-going costs need to be included in any ROI assessment before moving to Agile Execution.

Opportunity: Change Agent

If the pro-forma ROI for Agile Execution is compelling, the effort to start the conversation with your field execution team and retail partners may well be worth the time. An important first step is to create a baseline measurement of the state of execution performance, which will help you validate (or update) the ROI expectation of agile, as non-compliance is directly correlated to the ROI of agile.

We have found that the simple step of "knowing" the size of the execution gap becomes a major tool for shopper marketers, customer team members and category managers to create action-driving discussions that improve retail execution. In almost every case, the size of the execution problem was larger than expected by the brand, which empowered the initiator to drive discussions both internally and externally (with retail partners) on ways to close the execution performance gap. We have many examples of initiators who have become "change agents" within their organizations, elevating their visibility and driving positive changes that affected their overall role and impact in the organization.

Challenges & Opportunities

Challenge: Field Force Prioritization

In-store execution work is already quite full. Priorities are set with multiple considerations in mind and can differ from region to region and store to store. Store reps typically have a single dashboard through which they take assignments for each store they visit. With the introduction of agile "correct," where speed is of the essence to lift drive-time sales, there must be a clear prioritization established and agreed to in advance by the brand and execution partner to ensure the priority of work efforts do drive the highest business results.

Opportunity: Increased Revenue and Profitability

Discussions about priorities are always valuable to an organization. With the scale and speed of retail execution, these conversations can be critical. The concept of Agile Execution is to "bake in" these "what-if" conversations in advance so that known, time-sensitive, highly revenue-limiting conditions can be flagged as high-priority actions that get automatically addressed. The costs of fast-response correction needs to be rolled into the prioritization discussion to make sure the impact is not just higher revenue but higher profitability.

Key Takeaways

- Drive-time holiday periods account for a significant percentage of annual retail sales – almost 25% in 2012 across all channels.
- As a result, execution of in-store promotional programs during these peak revenue periods is especially critical to annual profitability for CPG brands and retailers.
- Because of the labor-intensive aspects of retail execution, however, execution performance has experienced systematic shortfalls, especially in the areas of merchandising (49% of displays missing), promotional pricing (22% of promotional prices not set), and out-of-stock (15% average out-of-stock rate).
- These execution shortfalls directly impact drive-time revenue attainment, with revenue gaps reaching 20% to 25% or more depending on the degree of execution shortfalls.
- The ability to quickly measure and correct execution shortfalls at the front end of promotional periods directly addresses the inherent labor-intensive nature of in-store execution and enables an "agile" follow-up process that closes a major portion of that revenue gap.
- In addition, the insights that are gathered in both the measure and correct steps enable organizational learning across all functions involved in retail execution, helping improve retail execution and retail sales going forward.
- We believe the combination of short term measure-and-correct lift and medium term "learn" lift will significantly improve retail execution and retail sales that great execution drives.
- We call this new approach "agile execution."

Quri™

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Quri is a retail intelligence and analytics company that gives consumer brands and retailers the visibility to see what their shoppers are seeing and the analytics to correct the problems they find. Quri uses crowdsourcing, via its own nationwide force of consumers, to measure store-by-store execution gaps so you can immediately alert your field team to take corrective action. As a result, Quri helps drive much better shopping experiences for your shoppers and higher in-store sales and ROI for you.