NIELSEN FEATURED INSIGHTS

KEEP YOUR CUSTOMERS CLOSE, BUT RETAILERS CLOSER

THE NEXT WAVE OF GROWTH FOR FMCG MANUFACTURERS COULD COME FROM A FOCUS ON STORE RETENTION

- **Manufacturers are getting back to business in India and considering retail expansion to drive growth.**
- **Adding stores and distribution expansion will no longer be enough for manufacturers to ensure success in the marketplace. Instead, they should develop sound store retention strategies to provide the desired growth at rationalised costs.**
- **Sixty-two percent of growth for brands comes from stores that have been retained for 12 months, a clear indication of the need to prioritize retention.**

Companies are facing disruptions in their established FMCG supply chains, distribution networks and retail reach strategies because of the continued partial lockdown to control COVID-19. E-commerce is gaining ground, and several FMCG companies are working directly with delivery partners to reach the doorsteps of their customers. However, traditional trade, with its 10.2 million FMCG outlets, will regain a large part of its dominance once the situation eases up.

While rethinking their reach strategy under changed circumstances, sales teams are intuitively focusing on COVID-free green zones, pockets that have a high demand in certain categories, and the selection of the right stores. These may no longer be enough.

EFFECTIVE STORE RETENTION STRATEGY WILL DELIVER RESULTS

Sales teams that we have been in touch with have indicated that their measurement of success still revolves around the parameters of market share, distribution and expansion in distribution. However, expanding to new distribution territories or channels is expensive, particularly because a large number of them have dropped off within the first three months. The ideal scenario is to combine prudent expansion with store retention strategies after studying store-level data.

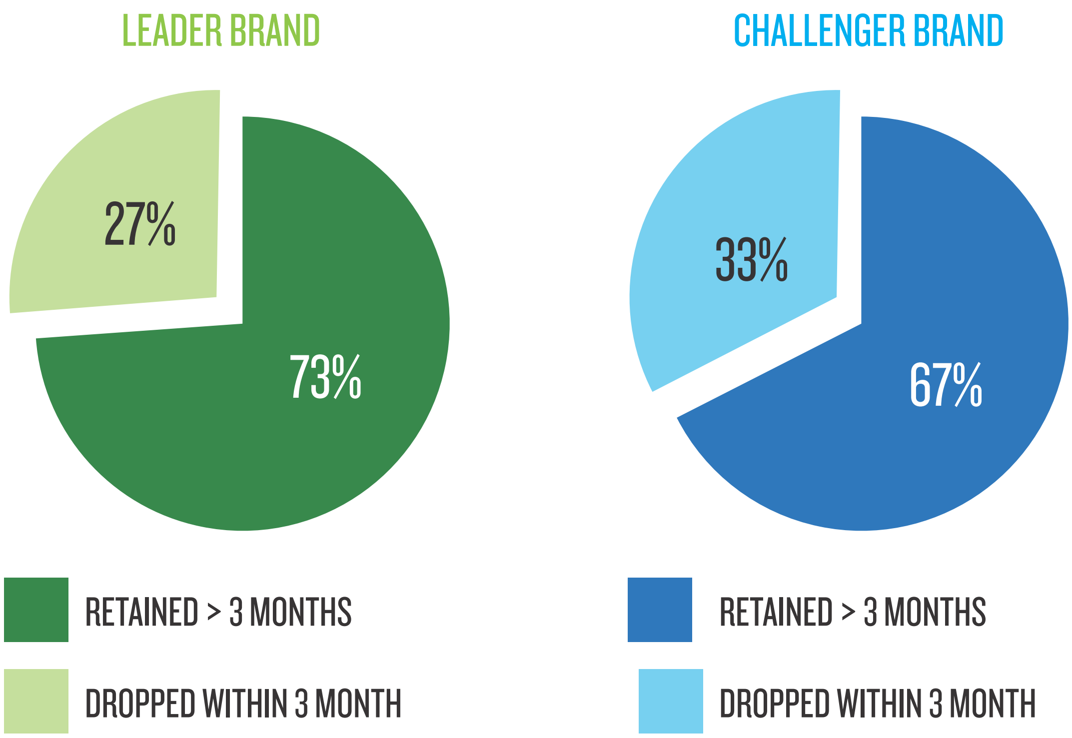
A shift in focus to retention of existing stores could be pivotal to success at a time when companies are watching their budgets. We conducted a store-level analysis across traditional trade outlets of 30 brands and analyzed their performance over three years. The study revealed that when a brand retains a store for 12 months or more, the store's sales output doubles on the back of consumer familiarity among other factors. Non-FMCG companies have long focused on the retention of stores, but it is a relatively under-explored area for FMCG brands in the country. Through the same study, we also discovered that it takes 12 months for a brand to be established as an integral part of a store's offering, after which the probability of dropping out becomes negligible.

STUDIES SHOW THAT WHEN A BRAND RETAINS A STORE FOR 12 MONTHS OR MORE, THE STORE'S SALES OUTPUT DOUBLES ON THE BACK OF CONSUMER FAMILIARITY AND OTHER FACTORS.

THE JOURNEY TO RECRUITING STORES EFFECTIVELY

Brands regularly expand to newer stores, not all of which receive equal attention from their sales teams. Qualitative interviews with retailers and the sales teams of distributors and manufacturers have revealed that under-serviced and deprioritized stores result in brands exiting from 30% of new stores within three months of recruitment. The dropout rate is particularly alarming for challenger brands.

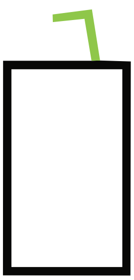
THE DROPOUT RATE IN THE FIRST QUARTER OF RECRUITMENT IS 1.2X HIGHER FOR CHALLENGER BRANDS



Source: Nielsen store level analysis done for 30 brands

Non-food categories like baby diapers, detergents, liquid toilet soap and shampoo have a lower dropout rate of 25% among newly recruited stores. This is because they have a longer shelf life and less need for servicing, giving retailers more confidence to stock them. In-depth interviews with retailers have revealed that they are more willing to stock goods that are easy to return if unsold or damaged. Moreover, our store-level analysis also revealed that 50% of food brands drop out of stores in the first six months, compared with 38% of non-food brands.

There is a connection between over-stocking and store retention concerns. Sales people tend to stock 60% more products in newly recruited stores than the average capacity of retained stores. Our interviews with sales representatives of manufacturers and distributors have revealed that the tendency to over-stock is motivated sometimes by the incentives salespeople expect to receive based on volumes, and at other times because of a lack of caution. Considering retained stores are ideal because of their high performance, sales teams should use them as a benchmark to determine how much to stock and avoid placing additional stress on the retailer to clear the stock. This high-pressure situation causes most brands to drop out in the second month of recruitment.

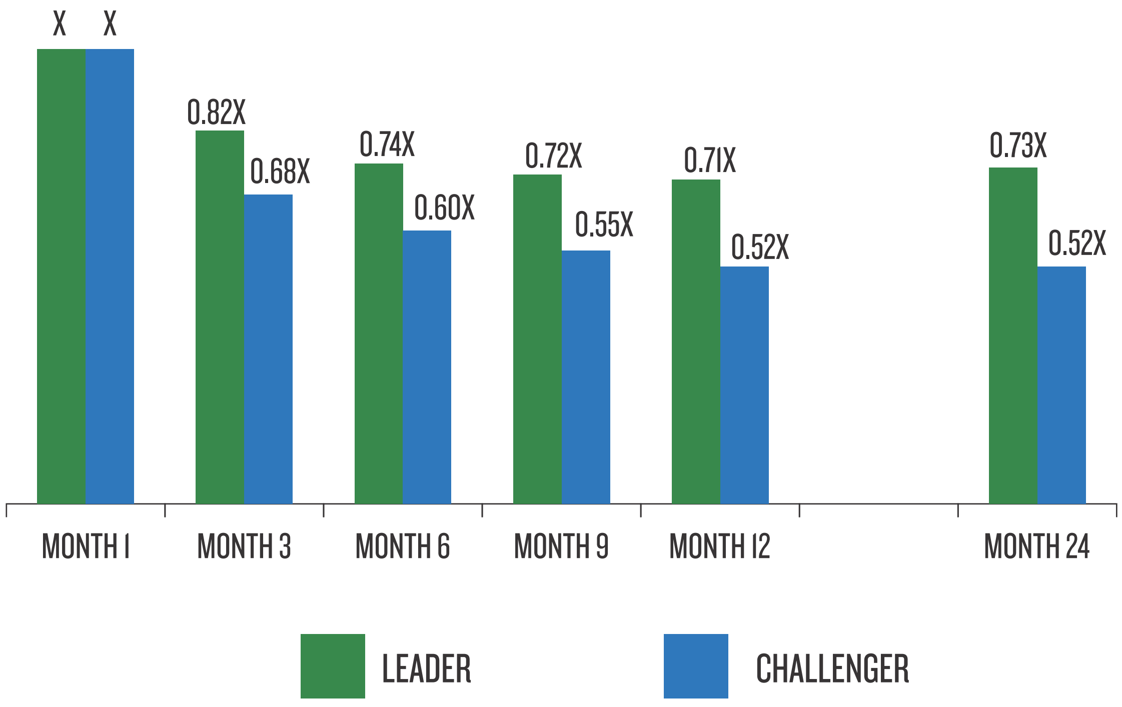


MOTIVATED BY INCENTIVES BASED ON VOLUMES OR LACK OF CAUTION, SALES PEOPLE TEND TO STOCK 60% MORE PRODUCT IN NEWLY RECRUITED STORES, THAN THE AVERAGE CAPACITY OF RETAINED STORES.

LEADER AND CHALLENGER BRANDS DIFFER IN DEGREES WHEN IT COMES TO RECRUITING STORES

Both leader brands and challenger brands are guilty of pushing retailers to over-stock. However, while leader brands keep ~40% higher stock than the average potential, challenger brands often stock 90% in excess, resulting in a corresponding reflection on retention rates of new stores. Assessing the potential of newly recruited stores and stocking just the right quantity, goes a long way in ensuring a higher likelihood of retention.

BOTH LEADER AND CHALLENGER BRANDS STOCK MORE THAN THE POTENTIAL OF RECRUITED STORES



Source: Nielsen store level analysis done for 30 brands

For every 100 recruited stores, only 48 qualify as retained stores. Reassuringly, only 2% of stores drop out after being with a brand for a whole 12 months, indicating that brands should wait out the gestation period.

LEADER BRANDS HAVE A HIGHER RETENTION RATE THAN CHALLENGER BRANDS

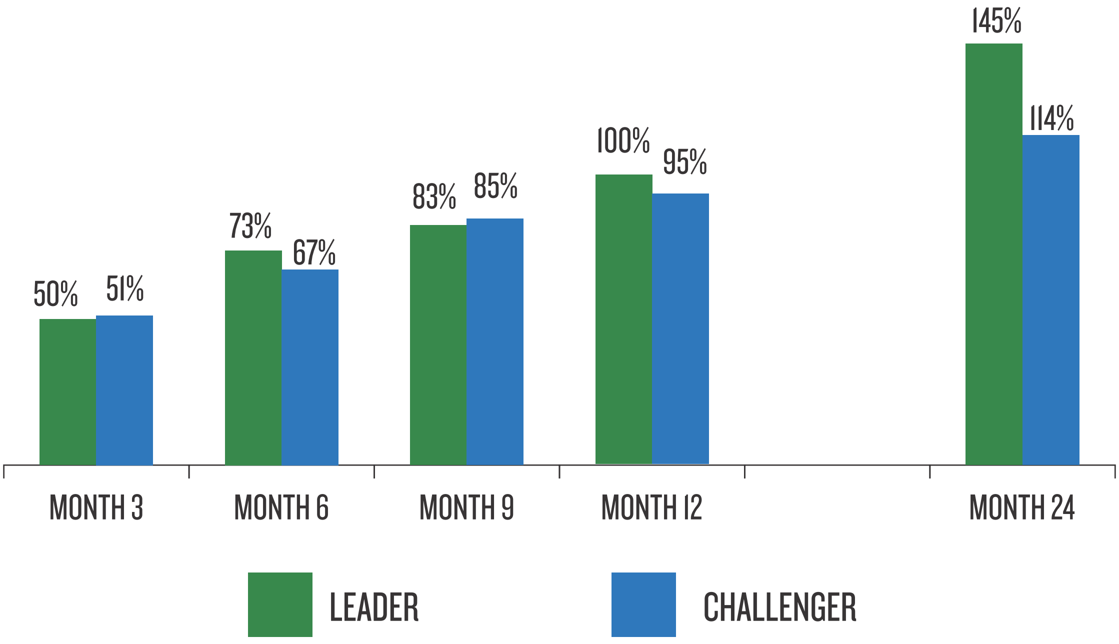
Source: Nielsen store level analysis done for 30 brands

Retained stores, just like newly recruited stores, are generally more amenable to non-food categories. Non-food brands retain 21% more stores than food brands 12 months into recruitment. For challenger brands offering instant noodles, refined oils, salty snacks and detergent, the retention rate plunges to 30%-35%.

RETAINED STORES ARE THE KEY TO EFFICIENCY AND SUCCESS

Challenging as the first 12 months can be, once that threshold is crossed, the relationship between brand and retailer is rewarding. Both leader and challenger brands across the categories of detergents, diapers, refined oils, salty snacks and spices tend to double their sales in stores retained for 12 months. Categories like shampoo and toothpaste, which are nearing saturation of consumption, and categories that have fewer brands commanding a majority share, like liquid toilet soap, experience an increase of as much as 50%-80% after 12 months of retention.

LEADER BRANDS EXPERIENCE LARGER GAINS IN THE RETAINED STORES



Source: Nielsen store level analysis done for 30 brands

On the other hand, while food categories may have more initial trouble retaining recruited stores, they perform 20% better once retained. Moreover, our store-level analysis also revealed that food categories double their output in stores within just nine months of constant presence, indicating that the initial incremental effort needed, might be well worth the trouble.

Sixty-two percent of a brand's growth comes from retained stores, with leader brands drawing double their growth from retained stores as compared to their challenger counterparts. This implies that challenger brands have to invest more resources to add a new store, to compensate for the lower growth they experience from retained stores. The lower retention rate for challenger brands translates into a 65% higher effort on expansion to match the brand growth rate of a leader brand.

WINNING WITH RETAIL RETENTION

Underplay recruitment bonus for retailers and resulting incentives for salespeople. Instead, reward continuous billing for three months.

Reward continuous billing and stocking for a period of 12 months.

Maintain optimal stocking based on category, channel, markets and brand status of leader versus challenger, especially for foods.

Stock levels stabilize after nine months of entry and output doubles after 12 months. So, don't worry about the interim drop in retailer purchase.

Avoid acquiring new stores for stock clearance, as they may drop out shortly after.

Ensure that sales people visit retailers in person, instead of merely through distributor representatives, to build trust and encourage personal interest by the retailer.

Among the three essential store attributes of sales, maintenance of stocks and purchase by the retailer, strengthen the quality of relationships through sales and purchases by the retailer. A retailer that is committed to buying a product regularly is also more likely to try and ensure its sale.

At a time when the rules of the marketplace are being rewritten and the focus is clearly on the balance of prudent budgets with growth, retention is a strategy that can provide significantly better results.

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