CASE DIAGNOSES

DISTRIBUTOR SALES FORCE PERFORMANCE MANAGEMENT

CASE ANALYSIS I

Nestle India, like any other nationally known marketing company of mass consumer products, has broadly taken cognizance of Indian market's reality in its distribution system. The large length and width of its distribution chain reflects the vastness and scattering of Indian market very clearly. The symptoms of strains in its distribution system, however, are clearly visible now. The case reports most of these symptoms at the levels of their distributor salesmen. They are getting less involved with the company, feeling the pangs of inadequate compensation (resulting into some of them moon shining) and reaching to the extreme of even leaving the company. These omens are fuelled by the environmental changes which are offering more lucrative opportunities outside the company. Internally also Nestle was facing the problem of smooth implementation of its distribution policies. Moreover, the "New Leap" initiative of the company would demand much smoother distribution machinery to achieve its marketing goals.

Indian distribution system is a creation of the low human wages prevailing in the marketplace. Marketers have not only adapted to them but have also perpetuated it to remain competitive as well as to increase their profits. Thus, dependence on distributor's salesmen is quite common to utilise the lowest basement wages and also to get rid of the massive industrial relations "burden" from their marketing department. Many companies, like Nestle, had been leveraging their marketing collaterals (like branding, products design and advertising etc.) to take the product price and distribution cost advantages. However, this delicate balance can sometimes go wrong and produce the situation like what Nestle is currently facing. In their case, there is no data to suggest that their marketing efforts (other than distribution) have become any weaker. Therefore, the diagnosis is tilted more towards distribution only. This problem is also quite serious to warrant the management attention as it involves 3300 CDs and RDs and pertains to the key physical links between the company and its consumers.

This problem can be considered at two levels. One, in the short term, is begging for immediate solutions to lubricate the current field force to be more productive as well as to check the problem of significant attritions. The bigger problem is to find a suitable match between the distribution system and the changing market realities.

In the short term, the case data suggests significant under compensation by Nestle to its DS compared to their peers in the market. In fact, this difference is as high as almost 40 per cent with no non-financial counterweights. But, the effect of this difference is equivalent to cost savings of only 1.3 per cent of revenue. The variable compensation which can significantly incentivise them towards superior performance is also quite low in absolute terms as well as in comparison to other companies. The resulting lack of identification with the company, diversion of their energies towards their part time enterprises and increasing attritions etc. are the additional bleeding points through which the company is incurring heavy costs.

The short term solution, therefore, lies in removing these anomalies. 10 to 15 per cent of compensation may be increased across the board. Another 10 to 15 per cent part of their current compensation be made available linked to their performance. Another 5 to 10 per cent should be invested in their enablement activities like training, rationalising of their activity plan and internal marketing.

For the long term, the emerging needs of the company's marketing plans will also have to be dovetailed in the plan. It is unlikely that the market structure for a company like Nestle would very much change in next 5-10 years. Modern trade may double or even treble in an extreme scenario. But, even that would not change dependence on them beyond 10-15 per cent. Therefore, strengthening and modernising the sales team would still remain as main opportunity area.

Nestle would require greater application of newer technologies, more efficient deployment of specialised skill sets and continuous cultivation of human resources. For this purpose, the entire product market and selling tasks matrix will have to be reviewed. With better information system, closer monitoring of and assistance to the field force will have to be targeted. The emphasis will be to let the field force concentrate upon key elements of market level value additions like targeted selling, sales promotion or merchandising.

The existing sales force may also be categorised according to their abilities to pick up and deliver the performance expectations. This should enable the redeployment of the older and difficult to change lot to be put on their traditional roles of servicing the market. The new and the more efficient ones may be deployed for the key initiatives of key market development and synchronising sales with the marketing strategies.

Ashok Pratap Arora
Professor - Marketing Area
Management Development Institute
Gurgaon - 122007

CASE ANALYSIS II

Nestle India had initiated a "big leap initiative" which is an aggressive market growth strategy. The case points that this initiative seems difficult to implement because of the increasing turnover of the distributors salesmen. The challenge is likely to get aggravated in future because of increasing employment options for the salesmen as well as increasing competition for retail shelf space. The salesmen are in the payrolls of the channel partners, and the diversity of the management practices of channel partners made the intervention even more difficult.

Nestle as a brand has a huge consumer pull and retail franchise, therefore all retailers need to keep their products. Thus, a considerable part of the sale would most likely have come irrespective of the visit and selling activity. So role of the DS's is order picking and replenishment, typically a low skill level activity.

In light of fierce and intense competition the visit of DS is necessary to maintain availability and visibility. As per the case data Nestle has a very divergent range of market shares and a large product portfolio, so the critical contribution of the DS is in full line forcing and garnering critical shelf space. Therefore, the DS have to bundle the products which are in high demand with those that are with relatively low demand in order to push the full line on the shelf space.

To grow the sales Nestle has to either increase sales from the existing counters or penetrate more into new counters. As the targets of DS are essentially on the volume of business the first option of saturating the existing counters looks more practical and viable. To get into new counters the company has to rely on wholesale.

To achieve big leap the company has to manage and prioritize the sales force's performance of DS with high turnover (who are newly appointed ones) and loyal DS's (who have been there with them for long). Both are equally important since the company requires more DS for expanding the retail penetration. Giving priority only to new DS's is against the established values, culture and tradition of the company as the company values stability.

However, this also creates the major challenge of making policy decisions. It is neither possible for Nestle to view its sales force as a static set of people, who need to be motivated to achieve "Big Leap" initiative (the group of newer and younger DS's who are good performers but not having through a long-term propensity to stay with the company). Nor it can consider the sales force as a dynamic set of people aggregating to a total number as it has considerable part of DS, who are not dynamic but are actually very stable. Taking care of both ends of the spectrum using a uniform sales force management policy becomes difficult to conceptualize and implement effectively. However, there seems to be no choice but to treat all DS's falling in either of two broad categories, and manage the contradictions and resultant tensions.

So to manage these two distinct groups the company can segment the employees as: a) stability seeking, steady performers; and b) growth seeking, high performers.

Nestle so far has been concentrating only on the stability seeking steady performers (reflected by the years of their association with Nestle, their policy of accommodating the DS as well as the lowest absolute compensation). However with Big Leap objectives, this model seems inadequate, as they need both types of sales force profile, and the key issue is to keep the relative numbers in a steady state.

The issue is how to motivate two distinct groups of DS's. From the case facts Nestle is the most cost efficient in its sales force expenses as well as lowest paid work force compared to the benchmarked companies. The productivity in terms of sales per person is double in case of HUL but that is a function of the product range and demand. Thus, the sales cost could be possibly revised upwards if need be.

There is a need to re-look at the benchmark and possibly rework the compensation with benchmarks like HUL. The incentive part of the compensation could be reworked to ensure that unnecessary long term sales force cost escalation is avoided as would be mandated by a change in basic salary. Part of the problem of motivation could be addressed through this route, but is it likely to solve the entire motivation problem? Would it solve the turnover problem?

So the segmentation can be done on the parameters of Performance and Stability in Job. This essentially helps in drawing up the specific strategy for sales force motivation. The performance dimension could be restricted to high and moderate (Case fact suggests that at an all India level, there has been a very steady growth in performance of the organization) while stability could be highly polar in terms of high and low.

The company can realize the big leap by either increasing the number of DS to increase the intensity and focus of distribution and motivating them by the incentive route or keeping the number of DS's same and motivating them by providing more supervisory roles. The case facts suggest that majority of the Nestle DS's would fall under the category of Loyalists. They could be motivated to perform by providing "performance linked incentives", which could be formulated as per the specific business targets and changed even on a month to month basis for arriving at the best fine tuning.

Kanwal Kapil
Professor - Marketing Area
Management Development Institute
Mehruali Road, Gurgaon -122007

CASE ANALYSIS III

This interesting Case delineates a very real problem faced by Nestle in the sales and distribution arena. In essence, this Case is about improving the motivation, and thus productivity of the Distributor Sales Force (DS), in the light of the following factors -

1. The Big Leap - The Company wants to move aggressively in the Indian market, and has ambitious growth targets and plans. In this situation, the "last mile" sales force - the DS would be a key element in achieving these goals.

   A quick calculation tells us that the DS channel is responsible for Rs. 28440 million (0.79 X 3000 X 12) of Rs. 36471 million of Nestle revenue of the Year 2007. Thus they are extremely important to the future growth plans of the company.

2. The Poaching from Telecom Companies - The Telecom Industry is growing hugely in India and they need salespeople similar in the profile to the DS. Thus many of the DS were moving for better returns and easier jobs. How does one stem the tide?

3. Organised Retail - Organised retail as a trend is growing steadily in India, and a significant number of consumers are expected to move from the standard mom and pop shops of yester years. This will reduce the quantum of sales by individual DS, thereby affecting their motivation negatively.

Some of the significant facts that come out of the Case as related to the DS -

1. The salaries of the Nestle DS are lower than competition. Specifically, the quantum and types of incentives for sales are much less than the competition. The competition also comprises companies of equally good pedigree and longevity in the market place - Hindustan Unilever, Cadbury's, P&G, etc.

2. The older Nestle DS are much more stable than the younger ones, who seem to prefer to move out. However, retaining the younger ones is critical, as they would be hungrier and want to make a mark on the business and a name for themselves.

3. The performance of the DS in the larger Cash Distributors (CDs) seems better than the smaller ones. Though surprisingly, the DS in the smaller CDs are the ones who are more involved in the business and have a greater say in the running of the business as a whole. This requires more analysis - is it that the market potential in the smaller CDs is lesser, or are they less involved in the Nestle business. If it is less market potential, than the Nestle EVP should focus on the larger CDs. However, if it is a case of less involvement with Nestle for the smaller CDs, than ways should be explored to increase the interest, and thus performance of the smaller CDs.

4. When it came to family friends and peers, the DS were proud to introduce themselves as Nestle salesmen, but while working in the market this spirit were hardly seen. It seems that they were proud of Nestle the company as brand, but not of Nestle, the company as sales organisation.

5. The DS force were the employees of the CD, and seen as a secondary sales force in Nestle.

What emerges, in essence is that there are 2 key points that need fixing if the DS are expected to play an important role in achieving Nestle's ambitious growth objectives -

1. Build a stronger, more sales oriented incentive package for them
2. Building a stronger rapport of the DS with Nestle the company, and building a culture of pride among the DS for Nestle the sales organisation and brand

It may be seen that both objectives are not at odds with each other, in fact, the presence of both (tangible and intangible) is very important and both feed and support the other objective.

Incentive Package - There are many ways to build this and there are some excellent thoughts in the programmes done by Hindustan Unilever for their sales force. Some of those thoughts could be looked at and adapted for the Nestle sales force, in addition to some other creative incentive programmes that the EVP and Regional Training Managers could evolve. Some points to be kept in mind are that:

- The incentive package should be simple enough for the DS to understand what he is going to get if he achieves his objectives at any point of time. Otherwise, this fails to help motivate them, as seems to be the case at present.
- Any incentive scheme should be built in such a way that it imposes a stretch by the DS, but should be possible to achieve and not beyond his ability. Only incentives of this sort have real impact. Needless to say, that means designing incentives of this sort call for actual knowledge of the market and each DS sales route and ability in particular. The CDs and Nestle sales force will certainly need to be closely involved if this is to be a success.

Rapport with Nestle - The good news here is that Nestle is a great brand and already perceived very well by the DS. Also, Nestle is either No.1 or No. 2 in all the categories that it competes in. That is a great motivational point and I am sure that most DS are not aware of this fact.

Thus, some of the actions that Nestle could do are -

- Rewarding longevity and stability - Prepare a program that rewards younger people for being stable and working for many years in the company.
- Not think of the DS as secondary sales people - These small nuances (of naming in this case), give away how the company staff views the DS. This perception should be actively battled and eradicated as soon as possible. This plays a huge role in motivation and is certainly one of the reasons that the Nestle DS are tempted by outside offers and their lower perceptions of Nestle the company as sales organisation.
- Recognition - Look to create ways in which the DS could be recognised for their contribution to the business. The recognition should be as public as possible. This has a great motivation effect not just on the specific DS, but the entire DS force at large.
- Training - This is done by competition (HUL), and should certainly be considered by Nestle. This should be aimed at building a stronger bond with Nestle, and combined with tips and ways for the DS to achieve their sales objectives better.

M. Sundarajan
Vice President - Marketing,
HCL Technologies Limited,
Noida