MANAGEMENT CASE

DISTRIBUTOR SALES FORCE PERFORMANCE MANAGEMENT

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Nestle India had initiated an aggressive market growth strategy which was difficult to implement because of the increasing turnover of the distributors' salesmen. The challenge was 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 were in the payrolls of the channel partners, and the diversity of the management practices of channel partners made the intervention even more difficult. The competitive analysis of the benchmarked companies and relevant data were collected to decide on the appropriate steps to mange the problem. It was very critical to take a well considered judgment on the issue as it affected the entire revenue engine of the company.

Key Words: ***Sales Force Effectiveness, Sales Force Motivation, Managing Distributor's Sales Force, Sales Incentives, Sales Performance Management***

INTRODUCTION

Nestlé India Limited had been a top performing Fast Moving Consumer Good (FMCG) Company for the last few years in the Indian market, based on the year on year growth achieved in sales and profits. The company enjoyed distinct advantages in operational effectiveness over its competitors in the areas of production, supply chain, demand planning, cost of operations and distribution. Key business indicators of Nestle India have been given in Exhibit 1 and product portfolio in Exhibit 2.

Nestlé, like most of its competitors in India, followed intensive distribution and the final connectivity to market was managed by the Distributor Salesman (DS). DS's were employees of the channel partners known as Cash Distributor (CD). They were the people who were responsible for the availability and visibility of finished goods at the retail market, accessible to end consumers for final consumption. Hence the criticality of this role was immense because the whole strategic value chain actually got executed at the retail level by these people. It meant that if the DS didn't deliver their role effectively, growth strategies would fall flat.

Exhibit 1: Key Financial Indicators of Nestle India*

All figures in Millions INR unless specified otherwise					
Year	**2003**	**2004**	**2005**	**2006**	**2007**
Gross Sales	22,798.3	23,728.2	26,438.9	29,441.9	36,471.8
Domestic Sales #	20,226.9	21,292.8	23,847.1	26,646.1	33,174.1
Export Sales	2,571.4	2,435.4	2,591.8	2,795.8	3,297.7
EBITDA**	4,446.8	4,509.9	5,220.5	5,415.2	6,962.7
Additional Employee Cost	-	-	-	-	753.7
Other Income	278.3	144.5	237.4	206.1	254.4
Impairment of Fixed Assets	22.2	23.3	(26.4)	3.9	11.8
Provision for Contingencies	229.6	266.9	223.2	144.9	(590.4)
Profit Before Taxation	3,991.5	3,864.9	4,690.6	4,805.3	6,286.1
Net Profit	2,630.8	2,519.2	3,095.7	3,151.0	4,138.1
Earnings Per Share (INR)	27.29	26.13	32.11	32.68	42.92
Dividend Per Share (INR)	20.00	24.50	25.00	25.50	33.00

Domestic Sales Include Excise Duty also

** EBITDA - Earnings before Interest, Tax, Depreciation and Amortisation.

Exhibit 2: The Product Portfolio of Nestle India

Product Category	Brands in the Nestle India	Number of SKU in Category	Rank in the Market for the Category	% Market Share
Noodles	Maggi	15	1	93%
Sauces	Maggi	11	1	28%
Coffees	Nescafe / Sunrise	12	1	52%
Infant Formula	Lactogen / NAN	10	1	70%
Infant Cereal	Cerelac / Nestum	14	1	94%
Chocolates	Kitkat / Munch / MilkyBar / BarOne	21	2	29%
Dairy Whitener	Everyday	4	2	45%
Condensed Milk	Milkmaid	2	1	70%

The problem afflicting Nestle and other FMCG companies in India for the last two years had been a very steep increase in the DS turnover, specially the ones with experience of three to five years making the distribution less effective. Part of the problem stemmed from the expanding employment opportunity available for these employees which had been the result of growth of the Indian economy, in FMCG and specially in sunrise businesses like telecommunication, credit card sales, etc. These alternate businesses required similar skill sets and were in a position to offer higher positions and pay. Also their current employment with the CD was not providing them adequate non-financial motivators like belongingness to the organisation, career prospects inside the organisation and job security. The problem was compounded in Nestle's case by the presence of an equally large number of very experienced DS's who were resistant to adopt and possibly incapable of implementing the new strategies of distribution management like sales force automation, aggressive network expansion plans which were on the anvil. Considering the criticality of problem in impacting the overall performance of the organisation, immediate remedial action was required. The Executive Vice President (EVP) - Sales, Nestle India had joined the India operations six months back as the Head of Sales Division, had kept this at top of his list of issues to address.

Distribution Process of Nestle India

Nestle products were manufactured in own factories and in some of the outsourced but Nestle supervised manufacturing facilities. These finished products were then transported to the distribution center (DC) or in some select remote locations which required inter-modal transportation, called redistribution centers (RDC).

Nestle products stored in DC's were owned by Nestle, but responsibility of warehousing and forwarding were assigned to DC agents against a monthly retainer. From the DC, stocks were invoiced to Cash Distributors (CD) and direct customers like institutions and national and international modern trade / large format retail customers (Metro etc.). This was the first point of sale for the company, where revenue was realised. There were 1300 CD's in India.

The Nestle sales process was a two-step process. They were termed as "Primary Sale" which included sales from Nestle to CD, and "Secondary Sale" which included from CD to retail outlets (retailers and wholesalers). The primary sales could happen only if the stocks at the retail level were at a level below the predetermined stock norms set up. Typically it was set at two weeks of sales considering average weekly sales of immediately preceding 3 months. Hence one of the criteria for selecting the CD was the capital and stocking requirements for the relevant market.

The CD distributed the products to a set of retail outlets who sold to the consumer. The CD accomplished the job of distributing Nestle products via their salesmen, referred to as "Distributor Salesman" (DS) in the Nestle parlance. The CD was responsible for ensuring sustained business development on behalf of Nestle. Sometimes, due to location disadvantage, the CD could not cater to the needs of certain markets. In these cases Redistributors (RD) worked under the CD to sell Nestle products in the outlets located in these markets (mainly rural and semi urban). The total number of RD's was nearly 2000. The flow diagram of the distribution system has been given in Exhibit 3 and some facts have been given in Exhibit 4.

Exhibit 3:

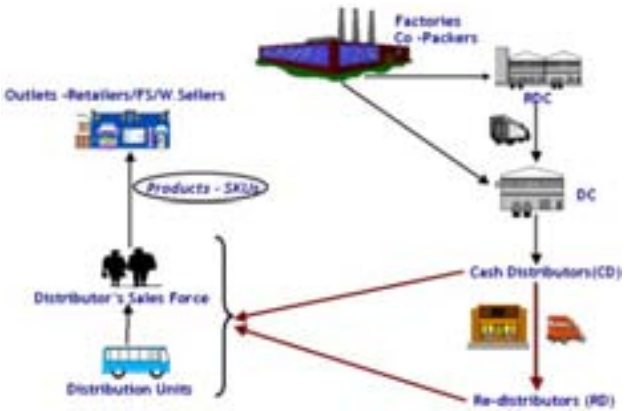
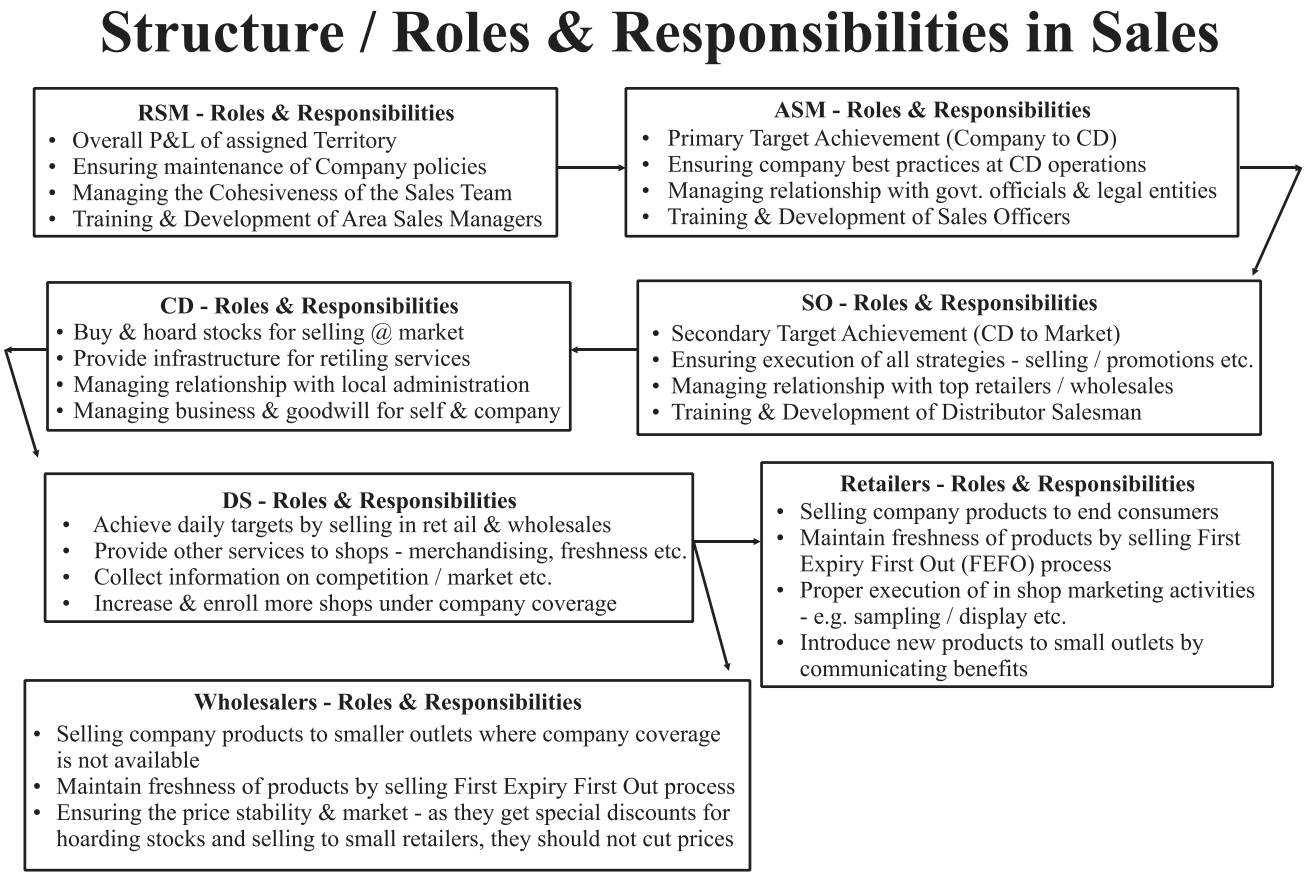


Exhibit 4: Key Facts about Nestle India distribution System

- DS was the only entity who achieves secondary sales (CD to Market)
- Primary Sales (company to CD) was derived from secondary sales only. If secondary sales do not happen, CD could not buy further stocks as they did not have sufficient warehousing facilities to hoard stocks.
- Most CD's handled many more multinational FMCGs (sometimes products of competition also) though in most of the cases, Nestle was principal company (around 50 per cent to 70 per cent of total business was from Nestle)
- DS was a CD employee, his fortune (salary, promotion etc.) depended on the CD and not on company, though most CD's listened to the recommendations of ASM and SO
- In last few years CD has opportunities to leave Nestle (or FMCG business) as telecom sector (Airtel, Vodafone, Aircel) is offering better operating options specially for pre-paid card selling (prepaid cards to be sold in retail counters that needs FMCG experience, CDs need not to keep large warehouses or big transportation infrastructures (as required for FMCGs), also there is no issues of managing freshness or hygiene for prepaid cards. Nestle CDs have 30 to 50 years of business relationship and loyal to the company, but the 2nd generation is more educated and getting attracted to telecom sectors.
- DS has ample opportunities to leave Nestle to other FMCGs and also in telecom sectors as they have good relationship with retailers and wholesalers. Other benefits for them is pre-paid card selling is relatively easy, number of shops to be visited on daily basis is low and they need not to carry heavy sales kit as cards are light weight. Salary offered is good.
- Sales Officers are also joining telecom sector to manage pre-paid card sales as it resembles FMCG operations.

Exhibit 4:



The Challenge

Nestlé SA the parent company of Nestlé India, decided to accord India a key country status in 2007 and wanted the business to achieve the quantum leap in revenue as well as profitability, through a strategy initiative called the "Big Leap." The company was planning to change the way it had operated and was focused at gearing all resources to develop the market aggressively.

Apart from a gamut of marketing initiatives, one of the prime areas of focus had been identified as the DS effectiveness, which actually impacted the sales effort at the grassroots. The DS represented one of the most valuable resources of the company that needed to be harnessed to develop market aggressively. Since DS was the last link in the Nestle supply chain to the final consumer, the strength of this link really determined whether the entire effort, right from production to marketing, brought about the desired results. It was the ownership, aggression, commitment and motivation of the DS that drove the availability of Nestlé's products across the counter.

EVP- Sales had the experience of working more than a decade in Asia Pacific region and the benefit of working for more than two decades in the Nestle system worldwide. However, this was his first stint at India. He knew that every country had its own culture and economic conditions which impacted behaviour of the sales force. He was clear that every location and company had its own tradition and it was very critical to take a well considered judgment on the issue as it affected the entire revenue engine of the company. One of the peculiarities of Indian distribution format noticed by him was that the DS's, who did the entire selling of Nestle products at the market place, were called "Secondary Sales Force" in the organisation, because they were not in the direct payroll of the organisation. Inadequate company involvement apart from once a month market visit and planning exercise with Sales Officer (who was the company employee) and low quantum of incentives possibly reflected the low priority that had been accorded to the DS's till now.

The objective of aggressive market development set by the company demanded that Nestle India now gave even greater importance to the DS's, by closely looking at their present status, work environment and level of ownership in sales operations. EVP needed to take quick decisions as implementation was likely to be time consuming. He picked up the Regional Training Managers located at all the four regions of India, to prepare a report which would help him understand the overall picture of Nestlé's DS operations at their markets. The choice of Training Managers was because he needed a report from persons who understood the system but were not a direct stakeholder in the result delivery process. Deliberately, he did not provide any specific format for the report apart from a general guideline to make the report as factual and insightful as possible. He felt that the trainers with their experience of the field sales in India would have their own ways of data collection and viewing at the problem. He also felt that there was no point trying to curb the individual biases as that was most likely to reflect the predominant Nestle India perspective and sales paradigms, which was important for him to understand. After he got their report, he asked one of his sales managers in the head office to make a summary of the findings which he could critically evaluate and make inferences to take the necessary decisions.

Summary Report on DS Operations

Nestle products were typically premium in price and the "quality" aspect of Nestle was perceived as a competitive edge among retailers (and also to end consumers). The company was operating in India for more than seventy-five years and enjoyed tremendous brand equity in infant food and coffee categories. The retailers also acknowledged the benefits and thus the primary focus of the DS were replenishment and effective rollout of the promotions, the consumer pull was managed by the marketing function. However, with increasing competition and consumer choices, the sales force were required to work harder to retain their own sales from the retail counters. The typical competitive landscape of Nestle has been given in Exhibit 5. The overall DS and CD ecosystem data has been given in Exhibit 6.

Exhibit 5: Competitive Landscape of Nestle India

Turnover of the Benchmarked FMCG Companies (INR Millions)

Year	Nestle	HUL	P&G	Cadbury
2008	43242.4	157417.6	8895.4	17730.8
2007	36471.8	137177.8	6547.1	15115.3
2006	29441.9	121034.4	5550.1	10582.5
2005	26438.9	110605.5	5985.8	8797.8

1. 1 US$ is equal to INR 45 as on date
2. one Lac is equal to 1,00,000

Exhibit 6: Sales Force of Nestle India distribution system

Category	Numbers	Average Annual Cost to Company (in Rs.)	Average Earnings Per Month through Nestle (in Rs.) Post Tax	Industry Average of Earning Per Month in Similar Levels (in Rs.)
DS	3000	INR 47400	INR 3950	INR 5500
CD	1300	INR 1591016	INR 44000	INR 35 - 45000

Experience

The Nestle DS had average work experience of about 9 years and their turnover was on an average lower than other comparable FMCG companies. The summary data has been given in Table 1. On investigation the key reasons found for the low turnover were DS's aversion to change jobs, particularly among the ones with more than 10 years of work. Many of the DS's had loyalty to the Nestle brand name and shifted from one Nestle CD to another. This phenomenon had been supported by the propensity of the Nestle sales team to accommodate loyal Nestle DS's, which also created a sense of job security.

The high average experience was good in the sense that these people had good knowledge about the company and evolved skill set for selling out products. However, this also bred complacency and resistance to adopting new processes and ways of working in most cases. Also, the Nestle Image and wide product portfolio provided the DS's a wide platform for building relationships with the retailers which were often leveraged by the DS's for the sake of their personal businesses which they engaged in after duty hours for instance a DS running provision store could buy goods at cheap rate from the retailers and also availed of credit facilities.

This scenario was fast changing as younger DS's were not inhibited from changing their jobs. They were constantly on the lookout for better career growth, salary and incentives within and beyond the FMCG sector. The career growth of the DS's who left Nestle was also contributing to this trend, even among the long serving DS's.

Table 1: The Summary Data on the Entire DS Workforce of Nestle

DS Profile : Experience, Education and Earnings	
Average Experience with CD	5.3 Years
Average Experience Nestle	4.2 Years
Average No. of Years Spent in Same Market.	2.3 Years
% of Graduates	37%
Average Turnover Handled Per Month	INR 0.79 mn.
Average Basic Salary Per Month	Rs.3250
Average Company Incentive Per Month	Rs.1000
Average Distributor Incentive Per Month	INR 500
Average Monthly Earning	INR 4750
% having Additional Business / Occupation	26%

Education

37 per cent were graduates, however Nestle direct sales team hardly reposed enough faith on DS's ability to identify problems and solve hem. Thus, in some sense DS's qualification was not leveraged by the system.

Earnings

The average earnings of Nestle DS's were neither correlated to experience nor to the turnover handled by them. The variable part to the earnings, comprising of company and CD incentives was not significant a percentage of total earnings. Most of the DS's had to support a family of 4-5 members. In such a scenario average monthly earning of Indian Rupees (INR) 4700 was hardly sufficient.

Additional Business / Occupation

Because of low earnings, many of Nestle DS's had started some additional business or work beyond their job. Most often the additional business was of provision store / small distributorships of relatively unknown companies in FMCG space, where they could use the familiarity, regular visits and relationships with retail outlet to their advantage.

Table 2: Comparison of DS's Profile across CD Business Volumes

Detail	Large CDs	Small CDs
Approximate annual Business Turnover of CD	INR 35 - 50 million	INR 15 – 30 million
No of DS's in Sample	29	22
Average Experience @ CD	8 years	2.5 years
Average Experience @ Nestle	5.5 years	4 years
Average Years Spent in Same Market	3.5 Years	2.0 years
% of Graduates	46%	31%
Average Turnover Handled Per Month	0.920 mio	0.690 mio
Average Basic Pay Per Month	INR 3550	INR 3100
Average Company Incentive Per Month	INR 1050	INR 1000
Average Total Monthly Earning	INR 4600	INR 4100
Allowances Given by Distributors	Bus fares + lunch allowances @ Rs.35 – 40 per day	
Incentive Parameters	Value Turnover, Priority Products Volume Achievement, Distribution Expansion,	
Outlet Covered Per Day	32 to 38 outlets	29 to 33 outlets
% of DS's having Additional Business or Other Occupation	36%	19%

Work Environment

Competitors were coming up with new products rapidly and there was aggressive fight for the market share through tactical moves like attractive promotions. The number of traditional outlets was increasing and there was a strong emergence of organised retail, which impacted the sales of the retailers negatively and since large format retail sales were managed centrally by the Nestle team and were beyond the purview of the CD or the DS. The retail outlets had limited space, time, interest and support to offer which increased their negotiating power.

Conflicting Priorities

Internally the DS had to balance between the conflicting priorities of the different stakeholders with whom they worked, namely the Nestle SO, CD and retailers. Some of the examples have been given in Exhibit 7. The net result of the conflicting priorities was stress, diminishing the impact of satisfaction of achievement and fulfillment associated with sales. This had adverse impact on the DS's motivation to work as the bosses were never likely to be happy.

Exhibit 7: Conflicting Priorities of Nestle DS

SO vs. Outlet	
SO	**Outlet**
To liquidate earlier manufactured stocks even if new batch of same product already present in market. He wanted to follow FEFO – First Expiry First Out	He wanted stocks of the freshest and latest batches.
To check replacement, replace carefully	Replace immediately
To secure visibility for the whole product range	Not interested in visibility, focused on his ease
To distribute products in short supply, judiciously	To buy excess stocks of products in short supply
To sell the entire product range	To buy only fast moving products
To increase stock at outlets to increase investment on Nestle and deny space to competition	To work with minimum stock, since DS came regularly, why to invest more in stocks unnecessarily?

SO vs. CD	
To expand distribution through range and outlet expansion, hence to pressurise distributor to expand infrastructure and distribution units to optimise market coverage	To cover only the high turnover outlets with high selling SKUs optimally using existing infrastructure, no interest in additional investment
To expand Range / Support new product categories by giving better outlet service and credits where required	To provide standard services and control credit irrespective of whether product was new or old
To accord different degree of treatment to different outlets–loyal and competition–loyal outlets etc.	One size fits all, no focus on different degree of treatment for different outlets
To focus on continuous market development keeping future opportunities in mind	To focus only on the existing size of business, no focus on future opportunities

Company Incentive Structure

The maximum incentive that a DS could earn within the prevailing system was INR 1200 per month, and the average performer earned around INR 750 per month. As compared to incentives given by the other leading FMCG companies, this was lower. It caused dissatisfaction when Nestle DS's compared their incentives with their counterparts in other companies. Most competitors offered turnover incentive, on achieving a pre-specified average of SKU (Stock Keeping Unit) sales, retail coverage and sale of priority products. CDs did not have uniform systems of disbursing DS incentives - some paid monthly, some quarterly and few of them paid half yearly, on the basis of turnover achievement.

The other problem with incentives was the complexity of calculating the earning. Most of the DS's were unable to calculate their own earning, hence were not motivated to achieve the same. It was only at the month end that they were communicated about their achieved incentives.

Target Setting

The targets given to the SO were simply based on product line-wise turnover and were allocated to the DS's under them, on the basis of their past performance and current market trends. The process was well defined and accepted, and there was not much scope of negotiation.

Training Inputs

Traditionally the training workshop conducted for the DS's was an annual affair and irrespective of their experience. This generally acted as an outing for most of the DS's rather than impacting their skill.

Credit Pressure

Nestle, like most of the FMCG companies, suggested a seven day market credit format for the CDs. However there were some cases where payment did not happen before a fortnight or even twenty-one days and in few cases the debt went bad. In such cases the DS was held responsible by the CD for collecting the payment, and sometimes even his salary payment was suspended or a loan voucher was issued in his name.

Work Environment at CD

There was a lot of variation in how DS's were treated at large CDs and small CDs. In small CDs, DS not only looked after market coverage but also other functions. They were involved in decision making and there was a lot of two-way communication among the DS's and the CD. Moreover, they handled a major part of the turnover for the distributor. In contrast to these, individual DS's were almost insignificant in large CD's, where the number of DS's was large. At large CD points however the decisions were made unilaterally at the top and just conveyed to the DS's for implementation. However, common aspect across the CD's was that, very few CDs ever went out and worked with the DS's in the market. Most of them just believed in dictating targets without really bothering how these could be achieved.

Monotony

Most of the DS's had been working in the same market in excess three years; the scope of transfer was not practical as they were employed by the CD's who were local market operators. Working in the same market for so many years led to monotony and fatigue, especially because the same markets were covered once and sometimes twice in a week as per the norms of intensive distribution.

Insufficient Company Involvement

Once a month market working with the SO and annual training were the only planned and regular direct involvement between the company and the DS's. There was no formal forum where the DS's could interact with the top-level sales management team of Nestle. There was no provision for recognising DS's for good performance at the company level. Though most of the DS's had been working for the company in excess of 5 years, they do not really feel that they were a part of the Nestle family.

Stock Shortages

In case the DS was unable to supply fast moving products because of the stock shortage, the outlets did not want to place orders for the other products even if there was a requirement. Stock shortages were quite a regular feature with some specific product lines owing to the unpredictable demand, perishable and seasonal nature of demand.

Key Competitive Benchmarks in India for Nestle India

Hindustan Unilever Limited (HUL)

HUL was the biggest FMCG Company in India in terms of turnover and distribution reach. The company used the services of approximately 1600 Re-Distributor Stockists (RDS) to serve the entire country. The DS equivalents were called Redistributors Stockist Salesman (RSSM), and there were 6000 of them in the whole country. They were responsible for Order Booking, Full Line Selling, Delivery Management and Outlet Servicing. They had been using technology enabled HHT (Hand Held Terminals) in most of the areas. Table 3 gives the summary information of the distributor sales force.

Table 3: Details of Secondary Salesman of HUL

Criteria	Data
Works under	RDS
Minimum Academic Qualification	10 / 12 pass with 1 to 2 years of experience
Salary paid by	Basic by Distributor + Incentive by Company
Average Basic Pay Per Month	Rs.3800 – 6200
Average Company Incentive Per Month	Rs.2400 to 6000
Average Total Monthly Earning	Rs.7000 – 12500
Allowances Given by Distributors	Daily Lunch Allowance (25*25 working days) + Daily Traveling Allowance (25*25 working days)
Incentive parameters	Lots of priorities and focus areas on monthly basis
Outlet Covered Per Day	28 to 36 outlets

Distributor Run Salesmen Contest

Contests were frequently used to get RSSMs concentrate not only on turnover but also critical aspect like planned credit and collection in market place. The factors like attendance and punctuality, which usually received less attention, were also brought into focus through these contests.

Company Incentives

All incentives were linked to RSSM's monthly journey cycle (approx. 24 days). For instance, the RSSM selling the personal care products had to sell specific lines in a journey cycle (a four week market visit itinerary) to meet the business target. Typically the incentive was INR 50 per working day which approximately worked out to Rs.1200 per month. In the main line, a RSSM had to make specific number of lines visible in the market during the cycle to earn the incentive.

Turnover Incentive

The targets were based on a predetermined growth over the same journey cycle in the last year. The RSSM was eligible for fixed incentive of Rs.1800 per month after a minimum achievement of 95 per cent of the set target. On achievement of more than 100 per cent the incentive slab increased.

Product Incentive

Every RSSM had targets on specific products and markets. The targets were set by the TSI (Territory Sales In charge) based on his understanding of the market potential. On achieving targets for focus packs maximum earning for the RSSM was Rs.1500 per month.

Productivity Incentive

On a few brands, the company declared productivity incentives from time to time on every productive bill for these brands. On achieving 100 per cent productivity targets the RSSM got a fixed amount per bill, typically amounting to Rs 500 per month.

Seasonal Contests

To take the full advantage of the seasonality of some of the product lines, HUL had seasonal contests for salesmen. Though the target was very stiff, historically a large number of RSSMs achieved the target and earned this incentive. Thus, the company could fully capitalise on the seasonal advantage.

Launch Incentive

The Company had special focus on new product introductions. The sales system had "launch targets" for new products. On achievement of the launch target, RSSM was eligible to receive a fixed amount which hovered around Rs.700 per month.

Training

HUL conducted a one day training programme for the RSSM's every year. The training related to the following:

1. Selling and persuasion skills through role plays.
2. Sharing of innovative ideas being implemented in different sales areas.
3. New product launch plans.
4. Building analytical mindset to help superior sales planning and execution at the outlet level.
5. Focusing on specific brands.
6. Encouraging involvement in decision making regarding activities to stimulate off take in the market.

TSI Involvement

The Territory Sales In-charge (TSI) were HUL employee's who supervised the RSSM. Most of the RSSMs working for HUL felt that the main focus of the TSI was to sell in the wholesale market. At the retail level the TSI took interest only in the key outlets which generated bulk of the retail volumes for the company. As such the RSSMs covering non-key outlets and servicing fragmented retail did not have opportunity to work with the TSIs more than once in four months.

HUL was partially facing the same problems of Nestle in terms of manpower retention but motivation was not really a problem. For HUL the problem was less pronounced because the RSSM had a large portfolio of products and there were less of monotonies because of the changing product focus of the company, for every month. Hence RSSM they had something new to attempt in every month which gave them immense satisfaction out of their work. This also led to the problem of turnover indirectly. Because of the skill of the RSSM, they were absorbed in higher capacity by FMCG and other industries. This worked as a source of growth potential and aspiration to perform better for all the RSSM. HUL was able to attract fresh talent to join as fresh RSSM.

Cadbury's India Limited

Indian confectionery market was dominated by Cadbury's. The Distributors of Cadbury's were called Re-Distributors (RD) and their Salesmen were called RDSM. RDSM had responsibility for order booking and outlet servicing and there were 1700 of them. Cadbury's also used the concept of Pilot Salesman (PSM) who focused on value turnover, volume of specific SKUs, displays, new outlet introduction. The PSM were 700 in number, were placed under commissioned manpower agencies and reported to Sales Officer of Cadbury's while the RDSM were employees of the redistributors. PSM worked in the higher potential market (and materials were supplied by RD) as compared to the ones worked with RD.

Detail	RDSM	PSM
Works under	Distributor	Commissioned manpower agency
Minimum Academic Criteria	None	+12
Salary paid by	Basic by Distributor + Incentive by Company	Total Amount Paid by Company
Average Basic Pay Per Month	INR 3200 – 4000	INR 3400 - 5500
Average Company Incentive Per Month	INR 500 – 1000	INR 4000 / quarter
Average Total Monthly Earning	INR 3900 – 5000	INR 5200 - 6800
Allowances Given by Distributors	Petrol / Telephone	INR 500 – 700 – Telephone
Incentive Parameters	Basis Monthly Priorities on Specific SKUs, Displays etc.	Value Turnover, Volume of Specific SKUs, Displays, New Outlet Introduction etc.
Outlet Covered Per Day	30 to 45 Outlets	Weekly Plans

The RDSM's had relatively longer association with Cadbury's and less aggressive, while the PSM's were not sticking to their jobs, though the motivation level of PSM were much higher than the average RDSM. It seemed that the PSM position was a stepping stone for the sales professionals to join other organisations in higher positions.

The training inputs and other operating parameters for the RDSM were similar to that of Nestle DS.

Procter & Gamble

P&G entered into the Indian market in 1990. Initially it tried the traditional distribution system as followed by all the above mentioned organisations. However, the group changed the system in 2001-2002 and focused on key retail outlets for direct servicing. The company brought down its number of distributors from 2000 to 170 only, to cater to the entire country. However these distributors were of different types and worked as big organisations with their own full scale sales structures as follows:

- Business Executives (BE) planned market strategies, allocated Distributor Sales Executives (DSE) targets based market potential and monitored daily achievements of different objectives.
- Sales Team Leaders (STL) looked after training and development of DSE's which included functional skills, and on job coaching.
- Distributor Sales Executives booked orders, sold products based on the set targets, achieving penetration and distribution expansion objectives, placed range of products on outlets, handled retailers' queries and maintained relationship with the retailers.

The P&G executives were involved in managing the distributors and focused on the training and development aspects of the sales force of the distributors. Comparative details of the sales force has been given in Table 4.

The distributors sales force was managed as a full-fledged organisation had minimal turnover as there was a system of growth available. There were sixty four Business executives, one hundred fifty Sales team lead and six hundred DSE, with well documented performance evaluation and promotion parameters. The scope of work was much different from the other FMCG and in the sales force community acknowledged to be the best paid job.

Table 4: Details of Different Sets of Secondary Salesman

Detail	Business Executive	Sales Team Leader	DSE
Works under	Distributor	Distributor	Distributor
Minimum Academic Criteria	Graduate + 8yr exp	Graduate + 4yr exp	Graduate
Salary paid by	Distributor	Distributor	Distributor
Average Basic Pay Per Month	Rs.14000	Rs.9000	Rs.4000
Average Company IncentivePer Month	Rs.3000	Rs.2000	Rs.1000
Allowances – Statutory Provident Fund + Medical + Retirement Benefits (Monthly Accrual)	Rs.5000	Rs.4500	Rs.1500
Average Total Monthly Earning	Rs.22000	Rs.15500	Rs.6500
Incentive Parameters	Volume / value / Credit status	Volume / value / Training and Development	Volume / Value / Specific SKUs
Outlet Covered Per Day	Need based	15 -20 with DSEs	25 -30

Some Other Qualitative Insights and Recommendations Collected from the Sales Team of Nestle

The CD's and DS's of the company were going to be very important for Nestle in its mission to achieve the "Big Leap" objectives. The company objectives needed to be further engrained within the DS's, to motivate them to take ownership of implementing the "Big Leap" initiative. These specific objectives were market leadership, market dominance and market development. Once these objectives really became a part of the DS psyche, a lot of distortion and discrepancy between actual and desired market working would disappear. The objective would be improving the systems by appropriate training and development of its members.

The major limitation had been the ineffective use of the consumer perception of premium quality of the Nestle products for retail dominance. The DS were just not able to convince the outlets to get visibility and shelf space. Thus, Nestle needed to develop better conviction and confidence about its products amongst the DS team. Though new products were highlighted and their benefits were communicated by the training team, there was still lack of sufficient conviction about products to make an impact on the retail level.

The sensitivity and need to gather competitive information were lacking across DS's. Though they knew that local competitive information was required as a critical input for their own work as well as a feedback to the marketing group at the Head Office for suitable action, it was not getting executed. The DS did not consider it as a part of his duties, he felt that it was too much of a work for the remuneration they were getting, and the DS was not ready to spend additional time to collect such information. Experience suggested that DS's felt that the SO's were better equipped to collect and convey such information.

The team felt that the CD's role needed to be designed based on the type of outlet, and training imparted. Training programmes could be designed on the premises like:

- **Key Volume Generating Outlets:** These were the 20 per cent outlets, which gave the DS 60 per cent of his turnover. These outlets were more concerned about reputation, efficient servicing, extra advantages and sufficient time/ attention.
- **Non-key Outlets:** These outlets did not contribute that much to volume but they gave up the distribution base in the market place. These outlets were more concerned about profits, stock availability and regular service.

The company had to ensure that CDs had to be helped to achieve healthy profits. The key CD performance indicators have been given in Exhibit 8. This meant that DS's should work keeping in mind not only the interest of the company but also of the distributor. It was difficult to strike a balance between the two. However, a DS pursuing the objective of one, at the cost of the other didn't lead to the benefit of either; hence conflict management should be incorporated in the system and also as training programme. The specific modular formats for the training could also be modeled on outlet dissatisfaction and the remedies have been given in Exhibit 9.

Exhibit 8: Typical Financials of Nestle CD across Different Geographies

Parameter	Metro	A Class Town	B Class Town	C Class / Rural
Turnover (TO)	30 lac – 50 lac	10 lac – 18 lac	5 lac – 12 lac	2 lac to 7 lac
Gross Margin	5.8%	5.8%	5.8%	5.8%
Distribution Cost	2 – 3%	2 – 3%	1.5 – 2.5%	1.5 – 3%
Number of DS	4 – 8	2 – 5	1 - 3	1 - 2
DS Salary – Per Month.	INR 4000 - 5500	INR 3000 – 4000	INR 2500 - 3500	INR 1800 - 2500
Overheads	1.5 – 2%	1.5 – 2%	1 – 1.5%	0.5 – 1.5%
Other Income	Nil	Nil	Nil	Nil
Net Income	1.8 to 2.5% of TO	2.2 to 3.5% of TO	2.2 to 3.5% of TO	2.5 to 3.5% of TO

Exhibit 9: Action Plan to Improve Sales Force Performance

Reasons for Dissatisfaction	Actions Required
Irregular servicing	Reassess outlet potential if the outlet complains about frequent stock outs / irregular servicing and servicing and accordingly set the replenishment plan
Product in short supply not made available	In case of products in short supply, DS should ensure the stocking levels are uniform across outlets in terms of number of days of sales
Credit not granted / Credit period not enough	The DS should try and persuade the CD to allow limited credit, use it as an input to regularise the payment cycle of the system
Old stock hindering launch of new products	Monitor and manage First in First Out stock liquidation
Order and supply discrepancy	Patiently explain the reasons for the different stocks and convince.
Customer Complaint Unattended	Immediately inform the SO about any Consumer complaint so that the SO can attend the same promptly.
Slotting allowance payment delay	DS should try and make payments as soon as they were sanctioned. In case of delay the DS should explain the reasons for delay
Old batch stocks supplied after new batch	The DS's should ensure that FIFO was maintained at CD.
Rotation does not happen	If an outlet proactively informs the DS about rotation the DS should immediately shift stocks to fast moving outlets
Replacement does not happen	If the replacement was not due to outlets fault the DS should replace as soon as possible, if replacement was not possible DS should clearly inform the outlet about the same and bring up the cases to the SO for his approval.

The team also felt that apart from training, some other structural changes in outlet classification could also be attempted to solve the problems highlighted in the report. In order to ensure outlet satisfaction the DS could classify outlets as given in the table below and modify his working style to suit their needs as per Exhibit 10.

Exhibit 10: Reclassifying the Outlets

Type of Outlet	Actions to be Initiated
Key Outlets	Target these outlets for generating maximum possible volume. Develop relationship by boosting the ego of the dealer. The DS should take the SO to these outlets whenever he was working with him DS should show his concern and make them feel important.
Non-key Outlets	Provide regular service as most of these outlets feel that they were neglected. Ensure continuity of cash flow by selling only as per potential. Try to expand range by gradually increasing number of SKU's ordered as per the market and consumer profile. Do not let him overstock on a particular product instead give him the entire range for better fund rotation.
Profit Conscious Outlets	For selling to these kinds of outlets the DS must had concrete information on the price and margins offered by the company and the competition and use it strategically.
Quality Conscious Outlets	DS should try and suggest improvements in the shop format, merchandising and storage practice. These outlets were normally very happy to receive suggestions that can help them project a premium image and attract high-class customers.

One factor which was true but unexplained: Even though on an average a DS had worked for around 7 years with Nestle, he hardly demonstrated pride in being associated with the organisation. When it came to family friends and peers DS's were proud to introduce themselves as Nestle salesmen, but while working in the market this spirit was hardly seen. In any category where Nestle was not in a leading position, the DS got on the back foot very soon. The ambition to achieve dominance in that product category didn't get demonstrated in their market working.

The Decision Problem

The detailed report looked to be quite useful as it captured the relevant data. There was an inbuilt factor of the trainer's eye that was at play in the conceptualisation recommendations. There was enough material for taking the necessary decisions for aligning the training policy to the sales force management processes in the company, so as to achieve the objectives of Big Leap. The following information could be utilised for arriving at the final decision:

1. The gross margin of the competitors in the FMCG was almost the same, around 20-30 per cent

across the different product categories that they sold.

2. The net margin derived by the outlet was specific to the particular company; it was not dependent on the discounts as the additional discounts give as retail incentives were passed on to the end consumers because of intra and inter channel rivalry. The same was the case with promotional expenses.
3. The advertising expenses made by the companies were in line with their sales strategy and their relative spends were unlikely to change significantly in the short run.
4. Sales and administration expenses were to be justified by increase in the sales volume and any particular company could make an impact of maximum of 10 per cent in its own sales volume by adopting a change in the incentive plan of the sales channel.
5. All companies had supply chain imperfections and the sales trends reflected the equilibrium condition.

EVP was also considering some questions which the report did not resolve very categorically, but were necessary to be resolved before taking any decisions. What were the real factors behind the DS turnover? Was it possible to manage the sales performance required for the "Big Leap" with a continuous churn at the DS level? What type of policy interventions would help Nestlé achieve its plan of steeply growing sales, as the DS were not its direct employees? Was any significant change really required? Was it possible to improve the sales performance without any major change in sales management paradigm?

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