Routes to Market (RTM)
Case Studies

Case Study

Routes to Market Redefined in Canada

Key info:

Client: Multinational Consumer Goods Company (Tobacco)

Geography: Canada (27,000 retailers)

Timing of the project: From: 09/06/2006 to 10/07/2007 – 14 months

Project team: 37 Company managers + 15 Consultants

Partner involved: Carlos Coutinho, Partner at InReach Global Consulting

What was the issue/challenge?

In 2005, our client found itself under much pressure: a price war had eroded its margins and market share and, as highly restrictive tobacco legislation was closing in on brand communication, the prospect for future sustainable growth was looking improbable. The traditional Distributor's model of supplying the retail trade was not only unsatisfactory from a service level point of view; it also precluded our client from direct engagement with the retail trade. The latter would become a major force in the restricted marketing environment.

With 2 factories, 6 distribution centres and over 200 SKU's to sell, a new model was urgently required.

What was the objective?

To identify and implement a distribution model that enables the client to have first hand engagement with the retail trade, while reducing cost and increasing service levels.

What was the approach?

In collaboration with a specialist Consultant, Direct to Store Sales (DSS) was retained as the future distribution and marketing model. Three alternatives were considered and through elaborate Business Case development and analysis, the first was retained:

1) To implement DSS using the Company's employees for sales and delivery while using a logistics provider to operate the Distribution Centers (back end),

2) To implement DSS outsourced to a third party logistics provider, in charge of all operations from taking the orders to product delivery.

3) To implement DSS with sales being performed by the Company's sales team, while order processing and product delivery is outsourced to a third party logistics provider.

The overall scope of the Business Cases included:

- Define the full project timeline, resourcing, cost, risk assessment and scenario planning,
- Define the sales models (Pre Sales, Prompt Sales, Telemarketing or EDI) to be used per region as well as call rate target per sales model,
- Review the current network and establish the ideal number of sites and their location including Distribution Centers, Cross-dockings and Transit Points,
- Recommend the best routing system to be used for sales and delivery routes,
- Recommend fleet type for the sales and distribution operation, considering capacity, speed of product handling, security installation, and maintenance costs.
- Recommend the implementation and change-over model, including back-up planning,
- Development of an RFP for the third party logistics provider selection,
- Recommend the most appropriate IT solutions and equipment to be used by field force (hand-held and printers) and the integration with the back office systems (SAP),
- Define the number and level of human resources required, as well as change management and new skills training, per function and region,

The start-to-end implementation took 14 months, just in time for the marketing restrictions to set in. Overnight the Company changed its route to market in a vast geography = with a penetration of 80% of its volume.

In addition, the client decided to overhaul its manufacturing, which lead to a completely new supply chain, from manufacturing to retail in one year's time.

What were the results?

- Market share up by 2% after six months of implementation,
- Significant reduction of out of stock (OOS) with the main customers/retailers and channels,
- Significantly better service levels: e.g. 24 hour order-to-delivery for Key Account customers and major retailers,
- Increased Company presence at retail,
- Effective, first-hand relationship with each individual customer,
- Readiness to launch and introduce new brands in the market; an unmatched competitive advantage,
- The margin captured from distributors was reallocated to support the new cost of direct distribution,

What were the main obstacles?

- Acceptance of the new model by retail trade (key accounts and individual retailers).
- Management of the exiting distributors, contracts cancellation and penalties, legal implications.
- Change management of the TM&D field force (new skill set requirements).
- Recruitment and training of new 400 Trade Marketing and Sales representatives.
- IT readiness.
- Distribution Centers readiness.
- Routing readiness for sales and delivery.
- Selection and readiness of Logistics Partner,
- Integration and alignment of the key systems of the client and the Logistic Partner, mainly SAP instance, IT, invoice printing, delivery accuracy and stock reconciliation.

Case Study

How to Choose the Right Route to Market

What was the issue/challenge?

Just as important as deciding what to sell is deciding how to sell it. There is no right or wrong answer here – different Routes to Market will suit different kinds of products or services. The secret is to make it as simple and straightforward as possible for your customers to discover what you are selling – so they can easily buy it!

To decide which sales and distribution route would be best for your business, you need to consider:

1. Are you selling to consumers, through retailers or distributors, other businesses, national / international?

2. Do your customers have to be actively persuaded to buy your product or do they need to buy it anyway?

3. Are you selling a product or a service?

4. Do you customers need to inspect your products before they buy them?

5. Will customers see your product or service as a major purchase, a mid-range purchase or an impulse purchase?

6. Where are you primarily targeting your product or service – locally, regionally, nationally or internationally?

7. Does the product or service need to be installed or fitted at the customer's premises?

Depending on your answers to the above, here are some options you may wish to consider:

Selling to retailers

You many choose to sell your product to retailers such as a high street supermarket, a department store or a smaller street retailer, which will then display it on their shelves and sell it to their customers.

Advantages
High visibility for your product, and the potential to quickly build a high-volume business dealing directly with your consumers through your in store communication materials and the retailer contact with them.

Disadvantages
The retailer is in a powerful position to negotiate aggressively on price and you are likely to have to operate on a small profit margin. As a general rule retailers expect to mark up the products they buy by at least 100% which means you will have to sell to them at half the price you would sell direct to customers via your website. If you are supplying them for their own label range, there will be no opportunity to build your brand.

Case study
Michael Hall owns Fallen Fruits, a giftware and gardening business in Ludlow, Shropshire. He had been selling his horse-shaped swings for children – made from a recycled tyre – through garden centers when he contacted the buyers at John Lewis two years ago.

Within three months, Hall had received an order for the swings, which sell at £79.95. Since then, John Lewis has asked Hall to make a dinosaur swing, which went on sale last year, while he is also working on a wooden version. Now John Lewis accounts for most of his firm's production. Apart from the many forms that need to be filled in, supplying a large retailer has been very straightforward, Hall said. "The fact that we get the orders so far in advance has been fantastic for us. We look after them and they look after us."

Selling to wholesalers or distributors

Wholesalers and distributors act as a middleman between the suppliers or manufacturers and the end customer, whether via retailers or large businesses.

Advantages
An easy way to sell large volumes – much simpler to deliver 300 units to one wholesaler than one unit each to 300 retailers.

Disadvantages
Wholesalers need to make a profit too, so your selling price will be considerably lower than selling direct to a retailer customer. Your product will be very much a commodity – there will be no opportunity to build a personal relationship with the end user. Also because you are not selling direct to the end user it will be difficult to build and establish a brand name.

Using sales representatives

Sales representatives are direct employees (sales team) or freelance self-employed people who work on a commission basis – in other words they only get paid if they sell. They normally operate in their own specialist sectors and have an established portfolio of business-to-business customers.

Advantages
A quick way to get your product in front of lots of potential customers using your own sales force. Particularly useful for new products which the sales representative will be able to demonstrate and explain in person to the potential customer.

Disadvantages
You have to ensure control over the way in which your products are described or explained.

Selling online

The value of online sales has soared in the past couple of years as Internet connections have become faster and payment transactions have become more secure. Now it is the preferred method of buying for many consumers and very little that cannot be brought online.

One nice tweak to selling online is Click and Collect, as pioneered by Asda but now taken up by John Lewis and others. Customers' order or reserve goods online but then need to go to a physical shop to collect them. This approach saves on delivery charges and gives customers greater flexibility about when to collect their goods. Depending on your business, you might choose to allow customers to reserve without obligation, as Asda does, or to buy and pay before collection, as John Lewis does.

Advantages
Quick, easy, open for business 24/7, location and distance barriers disappear, no travel or parking required

Disadvantages
Customers may be deterred from buying goods they can not see or feel or try on before they buy them. Some customers are reluctant to buy things online for fear of fraud.

Opening a retail shop

The traditional way to do it and still useful for goods that customers need to see and touch before they buy, or for products they need to buy instantly – food and household goods, for example.

Advantages
Personal interaction with customers, ability to satisfy requests immediately. A pleasant shopping environment can encourage people to browse and so buy more than they would have otherwise.

Disadvantages
Big overheads – rent, business rates, furnishings, staff costs etc. Customer reaches limited by geographical location and opening hours.

Pop-up shops or kiosk

Pop-up shops are temporary shops, which can be set up in any kind of empty space for a day, a few days or a few weeks. There are two main types of pop-up shop — those held in empty retail premises, and those in non-traditional venues, which can be anything from a village hall to a garage, to an artist's studio. The idea – and the big appeal – is they are not around for long, from a day to several weeks; a season at most. That gives the venture both an element of surprise, and one of urgency.

Advantages
Cheap and low risk. Great opportunity to experiment with selling different types of products. Instant feedback from customers.

Disadvantages
No opportunity to build a long-term loyal customer base.

Case study

Kate Ward and her sister Sarah Loader have found the idea of temporary venues so appealing that they have swapped their bricks and mortar tea shop for a pop-up version. The pair used to run The Silver Apples, a vintage tea room in West Didsbury, Manchester. But after three years they were so fed up of seeing their profits being eaten up by rent and rates they closed their doors and hit the road with a pop-up version of their tea room. Their temporary tea room can be created in both indoor and outdoor spaces and the two of them go to great lengths to make it look exactly like a proper English traditional tea room, bringing tables, chairs, a counter, cake stands, linen and vintage crockery with them to decorate the space. They play period music on a record player and to complete the look the two of them, who do the waitressing, dress up in old-fashioned tea dresses.

Ward said: "We can really transform a space and make it look gorgeous, and that is what we like about it. People love it because it looks like a proper tearoom. They like the thought which has gone into it to make it nice for them." Now every weekend the sisters load up their van and head for venues such as the market hall at Altrincham, Cheshire, where they create their tea room for the monthly vintage fair. Customers can find out where they will be next by checking on their website. The tearoom also promotes the sisters' catering company, which makes the cakes they serve, and they do not intend to ever go back to permanent premises.

Selling via mail order catalogues – hard copy and website

You distribute catalogues to prospective customers – they then ring or go online to place orders. Often used as a way to sell to other businesses because it makes it so much easier for them to see what you sell.

Advantages
A great way of showing prospective customers the range of products you sell. High quality catalogues will be kept and noticed and so used over and over again

Disadvantages
Can be very expensive to produce a high quality catalogue and many of those you distribute will not hit their target and will be quickly thrown away or discarded. A rather old-fashioned method of buying things, likely to appeal to an older generation less used to buying things online.

Case study
Charles Hunt started a mail order business at the age of 26 with £500, selling bed linen and towels from his flat in Battersea, south London. It took off and did well for eight years, reaching annual sales of £6 million. But the business was dealt a fatal blow in 2005 when a postal strike prevented catalogues reaching customers in the valuable pre-Christmas sales period.

Hunt said: "They sat at Royal Mail from the end of November to the end of December and so we lost our entire Christmas trade. We lost hundreds of thousands of pounds in revenue." The business struggled on for a while but never recovered and went into administration at the beginning of 2007. Even worse, Charles had personally guaranteed the debt and so was left owing the bank more than £500,000. Fortunately Hunt has since bounced back with a new online venture, Duvet and Pillow Warehouse, which has a turnover of £5 million. But the experience taught him an important lesson: "We had too much in one basket. We had everything banked on catalogues and Royal Mail distributing them, so it took only one incident like that to knock down the business."

Routes to Market – Things to consider

If you are starting a business without much money, you need to choose a Route to Market your customers already feel comfortable using in order to minimize your risk. If you have to educate potential customers about how to buy your product, it will take time and money that you do not have.

Top tip one
Sometimes a business can become really successful selling well-known goods and services in an unusual way. Tupperware parties and Ann Summer parties are both classic examples – the idea of selling plastic storage boxes or lingerie via gatherings of friends in people's homes was considered extraordinary when the idea were first launched.

Top tip two
Have multiple Routes to Market in case one fails. Sell via retailers and also via your own website, for example. Or sell via a market stall and also by mail order. That way you will reach different groups of people, and also find out which route works best for your business. Plus you have a fall back option so that if one route to market fails to work, you can still reach your customers and they can still buy things from you.

Top tip three
Consider also combined RTM options including collaborative model selling and distributing your products jointly with no competitive ones.

Several companies are using this options and a successful case is Red Bull in Brazil that is being sell and distributed by Souza Cruz (member of the British American Tobacco Group) to more than 300.000 retailers in Brazil, with an increase in coverage of 50% and 35% in sales.