



## ***Outsourcing an In-House Merchandising Team: Success Story\* #2***

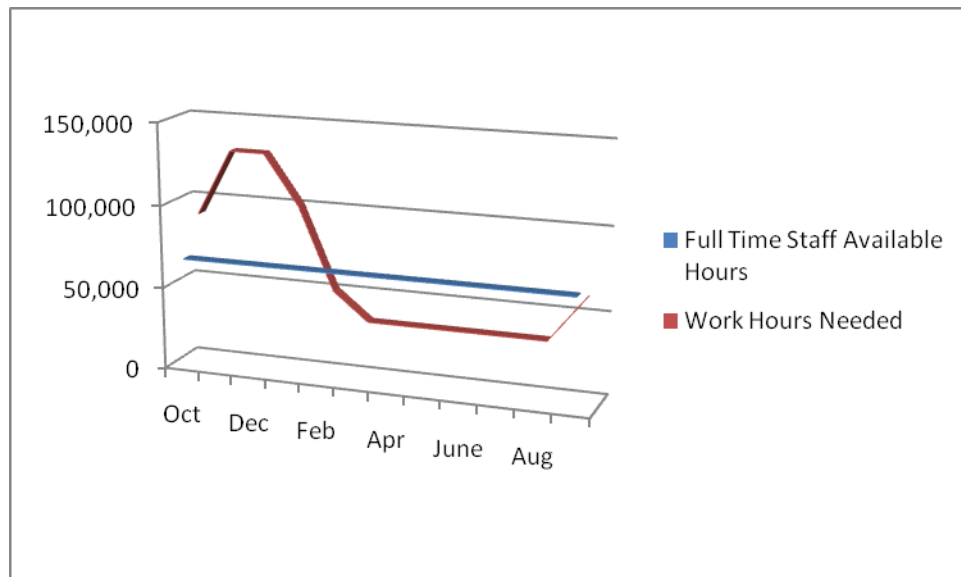
### **Costs Down, Saturday Visits Up from 60% to 90% Compliance**

#### **Results Summary:**

- **Cost Savings of \$7,000,000+ Per Year (Approx.)\*\***
- **\$38.5 Million Sales Increase Per Year from 5.5% Market Share Gain (Taken from #1 Competitor! – Approx.\*\*)**
  - **Secondary Displays Drive Sales and Market Share (Details)**  
<http://www.tomingraminc.com/DisplayerCompliance.pdf>
- **New Product Cut-In Rate Raised from 75% to 99%+**
  - **New Item Speed to Shelf (Details)**  
<http://www.tomingraminc.com/NewProductLaunchesMusic.pdf>
- **Fixed Costs Moved to Variable Costs, Shared With Other Manufacturers**
- **65% Full Time / 35% Part Time Work Force Changed to 30% Full Time / 70% Part Time**

#### **The Seasonal Work Load Problem:**

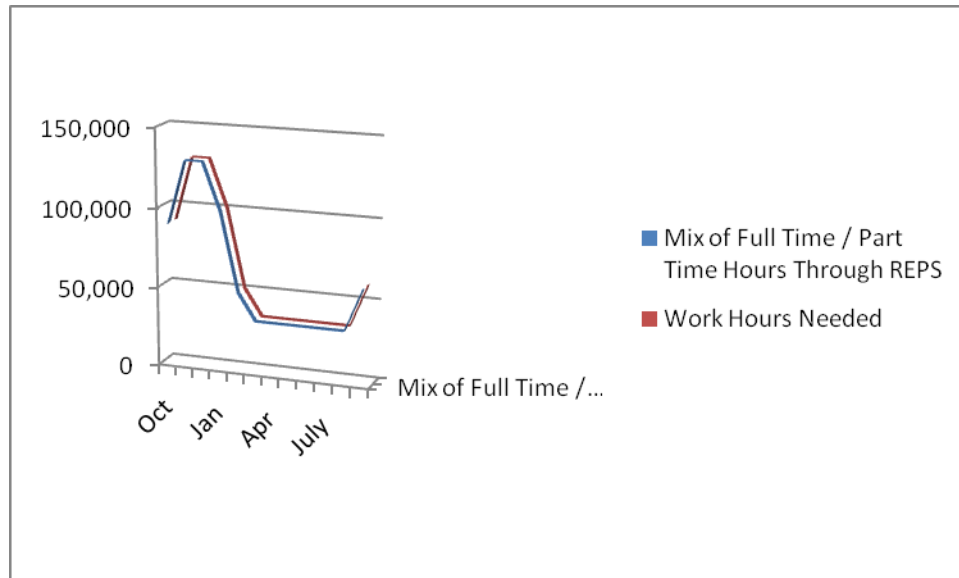
**BEFORE:** Shortages During Peak Season and Excess Costs During Non-Peak Season



**Competition For Jobs:** Simply put, REPS introduced competition for jobs. REPS was able to replace people costing the customer over \$35 per hour with people costing far less – and get superior work done at the same time.

### **The Seasonal Work Load Problem:**

**AFTER:** Sharing Costs With Other Manufacturers Through REPS Results in Peak Season Needs Met and Significant Cost Savings During Non-Peak Season



**Problems:** When considering whether to outsource an in-house merchandising team, the following key problems seem to rise to the surface:

1. **Pay Scale Creep:** In-house merchandising people, whether full or part time, tend to rise in seniority and pay. Over five to seven years, this pay increase becomes significant enough that large cost savings are possible by outsourcing to a third party services firm.
2. **Right Field Merchandiser In Right Place, When Needed:** People move, retail chains open and close stores, and priorities shift from one retail chain to another. Over time, this results in the manufacturer's in-house merchandising people, who are often very good at what they do, simply not being where they are needed.
3. **"A Third Party Cannot Possibly Do The Work As Well As Our 'In-House' People:** While many manufacturers believe this to be true, our experience has been that it is possible for a properly trained and motivated third party firm to do equal - sometimes superior - work. Please review the above success story links for evidence.
4. **The Budget for In-House Merchandising Work is Fixed, But The Number of Stores That Must Be Covered is Growing.** This is especially true for Wal\*Mart. It is not possible to make all the store calls needed with the cost structure of an in-house merchandising team.
5. **Gas Prices Continue to Increase.** Cost savings must be found elsewhere.

**Special Problem #1 in This Case: People Won't Do Saturday Service.** Our customer faced a special need for Saturday service. Tenured full-time employees simply could not be made to consistently work Saturdays. Saturday visit rates were in the 60%-70% range, while 90%+ was needed.

**Special Problem #2 in This Case: Struggling To Recruit and Manage a Part Time Work Force to Solve the Saturday Visit Problem.** As any reasonable business person would do, our customer tried to hire and manage part time help to solve the problem. For several reasons, this was not a satisfactory solution.

Most critically, the cost to achieve the needed 90%+ completion rates was far too high, due to:

- Redundant scheduling necessary to accommodate full time people
- Too many layers of management. (The customer had been very successful for a number of years and, as often happens, extra layers of people had formed.)

**Some Solutions:** This multi-year program consists of many components. A detailed discussion of these solutions can be found at <http://www.tomingraminc.com/MajorProgramSuccessGeneric.pdf> (This is a case for another manufacturer, but the program components are similar.)

**Economies of Scale In Managing the Part Time Work Force:** A major benefit in this situation was sharing costs of numerous functions with other manufacturers (who are also being serviced by REPS). The needs of several manufacturers create enough critical mass to afford to do these functions well. Some high points include:

- RECRUITING OF PART TIME PEOPLE
- PLANNING SYSTEM
- ROUTING AND SCHEDULING
- POP MATERIAL SHIPPING
- AUDIT / VISIT VERIFICATION
- FIELD SUPERVISION
- REPORTING SYSTEMS
- HANDHELD TECHNOLOGY
- WEB SITES FOR PICTURES, INSTRUCTIONS, TRAINING MATERIALS
- VIDEO TRAINING PROGRAMS
- IN-PERSON TRAINING PROGRAMS
- SALES TRAINING
- SURVEY QUESTIONS
- PRICING AND COMPETITIVE PRICE COLLECTION
- RETURNS HANDLING
- USE OF POS AND SHIP-TO DATA TO OPTIMIZE MERCHANDISING VISITS
- CUSTOM INVENTORY REPLENISHMENT SYSTEMS
- CALL CENTER SUPPORT
- WHEN FIELD PEOPLE NEED SPECIAL SKILLS

**How the Cost Savings Were Calculated:** We helped our customer convert the existing 400 positions to a mix of 30% full time / 70% part time, resulting in an average cost savings of \$9 per hour (including overhead.) Numerous redundant positions were also removed, resulting in some \$7 million in cost savings per year.

\*\* These cost savings and sales increases are in the process of being verified as of this writing.

**\* Please Note:** Percentages and dollars are approximations of estimated benefits for illustration purposes only. Company names, names of individuals, financial and other details may have been changed in order to protect client confidentiality. **For more information, contact Tom Ingram at 972-394-5736 or [tom.ingram@handleman.com](mailto:tom.ingram@handleman.com)**