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WHITE PAPER

Not Just More, But Better Sales

Moving Beyond "Depletions" as the Measure of Sales Success

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Numbers don't lie, or so it is said. Yet, when it comes to beverage alcohol sales, the numbers don't always tell the whole truth. Yes, depletions are depletions and a case sold is a case sold. However, simply improving depletion volume does nothing to ensure margins are optimized. Nor does it ensure brand equity is increased and that labor utilization (among your sales team) is being deployed as efficiently as it should be. So why is it that so many - even at the executive level - still lean on cases sold as a core metric for success; particularly when doing so doesn't place any value on the sustainability of that volume or the profitability of the deals that have been done? This paper examines the flawed thinking and practices that are so pervasive in the industry, and offers insight into a number of other critical success indicators frequently overlooked by sales executives and management.

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Much of what passes for "good sales practices" is actually damaging to a beverage-maker's long-term success and profitability. Let's examine some of the typical strategic mistakes companies in the beverage alcohol industry make when they rely on achieving sales target numbers using "cases sold" as the primary success metric.

Sales teams today are almost exclusively incentivized on depletions. Bonuses are earned by making numbers, period. Here are some examples of the types of depletion-focused incentives in widespread use. Perhaps they seem familiar to you?

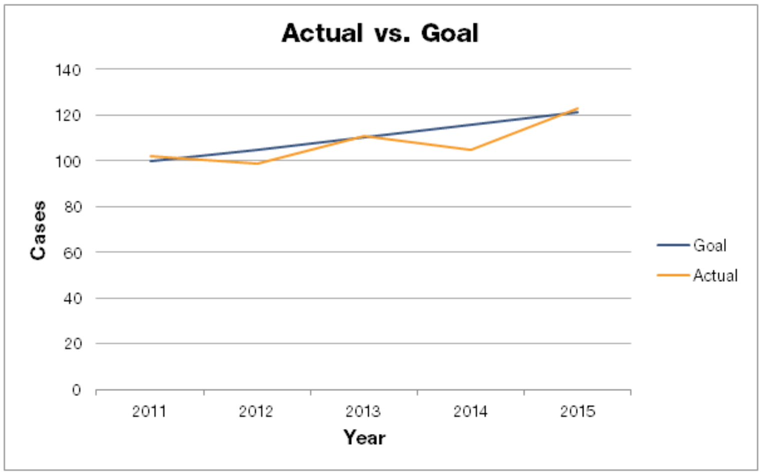
- **Bad Incentive Plan 1:** This strategy offers a bonus equivalent to 15% of a sales person's salary if they succeed in depleting 5,000 cases, a 5% increase within 12 months in their assigned markets.

  This sounds like a good deal. After all, 5,000 cases is a significant volume of sales. However, the ends do not justify the means, particularly if the sales rep achieves the goal by selling large quantities of cases at discounted prices to relatively few accounts simply to "make the number" and collect the bonus. While the rep has satisfied the letter of the incentive, he or she has certainly not satisfied the spirit (no pun) of the incentive.

  Selling many cases to only a handful of accounts does nothing to improve overall distribution which is essential to growing the brand. Moreover, the incentive does nothing to ensure product visibility since the only metric that matters is number of cases sold. As such, visibility of the product in the stores can be poor. Additionally, the discount offered by the sales rep is often passed along to the consumer resulting in a retail price point that diminishes the brand's value in the consumer's mind. So while the depletion number was made and the rep got paid, the brand's visibility growth - a true leading indicator of success - is being hindered.

- **Bad Incentive Plan 2:** This incentive strategy offers a bonus equivalent to 15% of a sales person's salary if they succeed in shipping $1 million in sales within the year in their assigned markets.

Again, the deal sounds like a win-win, with a million dollars' worth of product moved for the producer. There is a significant hidden downside to this accomplishment. What is to prevent the sales rep from loading a distributor up with surplus inventory (frequently by offering attractive credit terms, price support programs or distributor rep incentives) in order to help deplete the goods?



The typical outcome of these "bad" approaches to meeting volume goals could be referred to as "the old flip-flop routine". It is often perpetuated by sales reps in pursuit of their volume bonus number. The flip-flop has the rep meet the goals set in the present by sacrificing future sales. The rep makes his number one year by stuffing cases in; then misses it the next year as the market corrects and flushes out the excess volume pushed through at the end of previous year. Once inventories are worked through and return to normal levels, the rep can load retailers up again to make the numbers. Persuading retailers to purchase excess volume is usually achieved by offering them a compelling reason to buy more than they need; typically a lower price than they would normally get — e.g. "Buy an extra 20 cases and get an extra $50 off." The only thing this accomplishes is the retailer jamming the extra cases in their stock room. There is no return on the discount in terms of promotional value or brand expansion. Without a proper promotion that helps them sell through the cases, this tactic is a complete margin drain.

"The correct way to grow a brand is to invest in getting the displays, not supporting a lower price."

Incentive plans like these are incentivizing reps to take the easy way out. It's easier to get a few retailers to buy in on a special deep discount than it is to compel retailers to assemble product displays in the front of their stores. The correct way to grow a brand is to invest in getting the displays, not supporting a lower price. Supplier sales reps who drive volume by negotiating with and supporting distributors to offer deeper discounts are taking the easy way out. This tactic is a quick and easy way to affect sales through the distributor, but working the market to educate distributors on how to sell the brand, visiting key accounts to hand sell a display based on the benefits to the retailer and consumer and building the relationships to get the increased visibility achieved is a much harder game. At the end of the day, the savvy brand owner should rather have displays that drive sales than lower prices on shelves.

Leading vs. Lagging Indicators

The difference between a bad incentive and a good one is the long term effect the plan will have. A good plan focuses on leading indicators of success, which are quite easily identified in our industry. Each brand will have its own recipe for success; but for example, we know that increased visibility at the point of purchase increases sales. A good incentive would reward reps for achieving displays in the front of the store. This activity is proven to increase volume, and build the brand equity at the same time. Good incentives also focus on other leading indicators of success/sales. Displays, menu placements, staff trainings, and tastings are all examples of healthy activities that drive sales. The more these activities are accomplished, the more brand expansion a product will experience. Reward people for executing leading indicators of success and build the brand instead of paying incentives for just making numbers. Examples of good leading indicators are:

- Displays installed
- Drink menu features
- Staff trainings conducted
- Retail ads and catalog features
- POS placements/merchandising
- Cold box placements
- Target/key accounts sold

Volume goals as defined earlier, are a lagging measure. They do nothing to ensure brand building activity has taken place or that any displays were installed. Lagging Indicators include:

- Cases depleted
- Cases shipped
- Revenue

Why do So Many Fail to Focus on Leading Indicators?

Suppliers often believe it is the distributors' job to handle the execution of leading indicators and sales driving activities. There are only a few producers and a handful of suppliers who enjoy this kind of relationship with their distributors. Moreover, those with exclusive selling divisions within major wholesalers could argue that their dedicated sales reps should be executing displays and staff trainings. The reality is that these dedicated reps are still commission based, and will spend their time selling cases and taking orders, not building brands through these key activities. They are focused on their short term financial interests, not long term health of their portfolio, and are rewarded as such.

Smaller suppliers who share distributor reps with dozens of other suppliers, often with competing brands, have no chance at getting reps to execute these valuable activities with any consistency over time. Suppliers taking it upon themselves to visit key accounts and execute brand building initiatives

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leveraging leading indicators are far more likely to gain the support of the distributor rep, and may foster some incremental sales as a result. While distributors prefer to promote the notion that they are adding value to their suppliers' brand building initiatives, the fact is, they mostly just take the orders and deliver the cases. In the end, it is entirely the responsibility of suppliers to build their brands and perform the qualitative activities that requires.

The other major barrier to implementing good incentive plans is many suppliers' lack of capability when it comes to accurately planning and executing against these leading indicators (then measuring the results to inform continuous process improvement). Supplier executives may say they would like to incentivize this way, and manage this aspect of their business more closely, but have no tools or technology to do it in an organized and replicable fashion. Many aren't even aware such tools exist to enable this methodology and to literally guide their sales teams to execute against leading indicators.

"Relying on cases sold as the metric for sales success is a recipe for eroded margins."

Forward thinking, competitive suppliers (and even some savvy distributors) are aware of the latest technology and are driving competitive advantage using state-of-the-art sales execution tools like GreatVines to completely control and manage their go-to-market strategy. They're carving out greater market share by becoming more productive, profitable and healthy for the long term by focusing on leading indicators and not just counting cases.

Margins Matter

One of the main casualties of the Bad Incentive Plans detailed above is a producer's margin on every case sold. Relying on cases sold as the metric for sales success is a recipe for eroded margins. It is a mistake to reduce your margins to meet a volume goal. Do the math. Over time, eroding your margin is the worst thing you can do to your company profitability. Profit is the essential ingredient to product development, increased marketing and expanded brand reach. Eroding margins keep a company from being able to grow in any significant measure. Bad incentive programs encourage (or at least don't restrict) reps from reducing their companies' margins through low pricing or paying for unnecessary programs to move unrealistic volume.

The significance of protecting your margins cannot be overstated and there is research that supports the conclusion that diminishing margins in exchange for increased sales volume is an egregious mistake. Andris Zoltners, Professor Emeritus of Marketing from the Kellogg School of Marketing at Northwestern University and his Kellogg colleague Prabhakant Sinha wrote the definitive book on the subject titled, "The Complete Guide to Sales Force Incentive Compensation: How to Design and Implement Plans that Work". Zoltners et al conclude:

> *"Our experience has shown that incentive plans focusing exclusively on volume tend to misdirect rep performance because they do not adequately emphasize the qualitative drivers of sales and the brand building, equity building activities that drive sales. These include pricing, customer and*

channel mix, product mix, size mix, product visibility and consumer and key account activation – all of which are major drivers of profitability." [emphasis ours]

"The Complete Guide" offers strategies designed to isolate each of these important factors allowing targets to be set for each. In order to hold sales reps accountable for these elements may be more of a challenge than simply counting cases sold, but with advanced business analytics like those offered by today's cloud-based software tools, this data is easy to capture, measure and analyze.

"Rather than focus on volume, an effective incentive must include rewards for such things as product visibility, key account activation, product mix and other elements that have a material effect on perpetuating increased market share and brand penetration into key markets ..."

Zoltners and Sinha suggest many strategies for developing highly effective incentive programs similar to those delivered by GreatVines as part of its beverage selling software solution. Rather than focus on volume, an effective incentive must include rewards for such things as product visibility, key account activation, product mix and other elements that have a material effect on perpetuating increased market share and brand penetration into key markets, because these activities actually help reps plan and execute the work and thus increases their productivity.

Good Incentive Programs via GreatVines Technology

As discussed, "hitting the numbers" is far from the complete story. How cases are sold is as important as hitting a number when it comes to long-term brand building and equity. As noted at the beginning of the paper, numbers of cases sold doesn't tell the whole truth. In fact, there is a right and a wrong way to sell cases. The right way to incentivize reps is to reward the activities and behaviors that drive sales. Here are some examples of more effective incentive plans designed to help grow sales in an ongoing fashion.

- Good Incentive Plan A: This strategy offers a bonus equivalent to 15% of the sales rep's salary if they succeed in securing menu features lasting more than six months in 80% of the company's target key accounts.
- Good Incentive Plan B: A rep can earn a bonus equivalent to 15% of their salary if they secure case displays (using the company's display racks with POS) in front of the store across 80% of the target key accounts within a given quarter.

The right incentives (like those examples shared above) involve a healthy brand building activity as opposed to being focused on the lagging indicator of quantitative result of performing the activity. If getting displays in grocery stores next to the chip section during Super Bowl weekend is a great way to drive sales of a particular beverage or brand, then incentivize reps to secure the displays. The alternative, selling "X" amount of cases for the Super Bowl, doesn't guarantee the displays get up, thus the product doesn't gain the visibility and ultimately won't sell through.

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Key Fact: Good incentives focus on getting the product to sell through at retail. Incentivize activities such as:

- Menu placements
- Displays
- Retail ad features
- Catalog placements
- Consumer tastings and promotions
- Distribution in target key accounts
- Staff trainings
- Merchandising
- Proper shelf placement
- Proper pricing

All these activities are leading indicators of success and promote long-term growth, repeat sales and yes, increased depletions over time by increasing brand awareness. Yet, transitioning from reliance on depletion volume incentives to brand building incentives requires providing sales reps with the right tools to Plan, Execute and Measure their work against the new goals established. While many companies say they would love to reward their people for engaging in these activities, most lament they have no way of formally setting the goals and measuring their results. If a goal can be measured, it can be achieved. This is where a solution like GreatVines enters the picture.

"While many companies say they would love to reward their people for engaging in these activities, most lament they have no way of formally setting the goals and measuring their results."

Good sales isn't art, it's a science. Companies need a scientific sales methodology and incentive plans that includes planning, executing and measuring the activities that drive their sales. The GreatVines cloud-based beverage selling platform provides all the infrastructure required to plan, execute and measure activities in four key areas critical to success in beverage alcohol sales:

1. Key Account Identification
2. Distribution
3. Account Activation & Brand Visibility
4. Trade Marketing

With unfettered access to controls over each of these four critical processes, GreatVines executive users can derive data-driven incentive programs that provide rewards for sales activities that are truly beneficial to the long-term health and wellbeing of the organization. GreatVines boosts productivity, and sales rep users are able to execute in an organized and auditable fashion with clearly defined measurements of their success at every step along the way. Together, with GreatVines, a beverage producer's sales team and management work with a single purpose: to achieve goals that benefit everyone. For more information on using GreatVines to underpin strong, effective sales incentives, contact us today at (888) 547-4505.

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About GreatVines

GreatVines is a privately held company with a strong team of implementation consultants, advanced software developers and subject matter experts. GreatVines, LLC is based in Portland, Oregon, with team members in Los Angeles, Northern California (Napa) and New York. Since no software is required to install, GreatVines is able to work with producers and distributors worldwide!

GreatVines aims to provide superior software solutions for producers and distributors of wine, spirits and beer. The team's focus is constant innovation, leveraging the best technology available. As a Force.com ISV partner (Independent Software Vendor) of Salesforce.com (NYSE:CRM), GreatVines is able to leverage the technological strengths of the Force.com platform while applying its industry expertise to develop specific application features and functionality unique to the Beverage industry.

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