

Collaboration Dynamics When Outsourcing:

*How CPG Companies Enhance Performance by Collaborating
With Their Sales and Marketing Agencies*

EXECUTIVE SUMMARY



ACKNOWLEDGMENTS

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The Authors also thank the 17 sales agencies and 8 CPG manufacturing firms who completed the anonymous survey. Respondents' profiles may be found in the Appendix.

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OBJECTIVES AND METHODOLOGY

This Study was conducted by Georgia State University researchers in conjunction with the ASMC Foundation and the Association of Sales & Marketing Companies (ASMC). *Collaboration Dynamics When Outsourcing* examines the overall success of outsourcing when sales and marketing agencies (SMAs) and their consumer packaged goods manufacturing clients (CPGs) collaborate in headquarters selling, retail and administrative services. It also analyzes the characteristic of strategic partnering, dynamic capabilities and relative performance of SMAs and their CPG clients.

The ASMC Foundation has conducted three earlier studies on related topics. The *Value of Outsourcing*, published in 2006, created a baseline for the prevalence of outsourcing by CPG companies. That Study was refined and updated in 2007, under the title *Outsourcing is In*, to better reflect the differences of CPG manufacturers and their utilization of SMAs. *Maximizing the Impact of Outsourcing*, co-sponsored with the Grocery Manufacturers Association and published in 2010, was designed to help CPGs analyze their outsourcing decisions and maximize the value of their SMA relationships.

The primary objectives of this Study are to:

- **Measure SMA and CPG collaboration alignment.** “Collaboration Alignment” is defined as the overall agreement of the organizations on the visions, goals, and objectives.
- **Determine the parties’ performance satisfaction from collaboration.**
- **Establish the partnership outsourcing dynamic capabilities.** “Dynamic Capability” is defined as the ability of an organization or partnership to sense the market conditions, respond to changing conditions quickly, and learn from those experiences.

This study was informed by three main components:

1. A web-based survey of SMA agencies. See **Appendix - Table 1.**
2. A web-based survey of CPG manufacturers. See **Appendix - Table 2.**
3. A review of previous outsourcing studies, case study and research by Georgia State University.

EXECUTIVE SUMMARY

SMA's have proven to be valuable to CPG manufacturers and retailers because of their ability to provide cost savings to the industry as well as their ability to increase product sales through a variety of critical activities, including HQ sales, retail/in-store execution and sales/administrative support. For most CPG companies, SMA's provide a substantial return on investment as the invested infrastructure, sales teams, and systems of SMA's are utilized by CPG companies to achieve their sales and marketing objectives. The superior regional/local market knowledge and expertise of SMA's provide the basis for building the business of many CPGs.

“Many CPGs have historically viewed SMA's as a vendor, not as a strategic partner. However, how a CPG structures and manages its relationship with an SMA has a significant effect on their results. ... CPGs that view their SMA as part of their organization are likely to derive greater benefits from the relationship.”¹

“CPG companies believed that best value was derived through collaborative processes that built the working chemistry between manufacturers and SMA's. Through collaborative efforts, manufacturers and SMA's were undertaking joint development activities that resulted in long-term gains for all parties concerned.”²

“The collaborative dimensions of managing SMA-CPG company relationships were characterized by:

- a. Periodic meetings to review progress and achievements.
- b. Collaborative governance with joint development of strategies, plans, systems, processes and competencies.
- c. Continuous improvement process planning and implementation by both parties.
- d. Independent responsibilities undertaken by company executives and SMA's to manage the relationship.
- e. Established processes for reviewing results.
- f. Ongoing transparency of SMA activities and results.
- g. Continuous visibility (including web-enabled reporting tools).
- h. Alignment of each party's sales administration process to avoid duplication of activities and errors.
- i. Well-defined roles and responsibilities of SMA's vis-à-vis CPG internal sales teams.
- j. Variable models – dedicated or syndicated teams according to the need of the client.”³

¹ “**Maximizing the Impact of Outsourcing,**” page 12.

² “**Outsourcing Is In,**” page 14.

³ “**Outsourcing Is In,**” page 15.

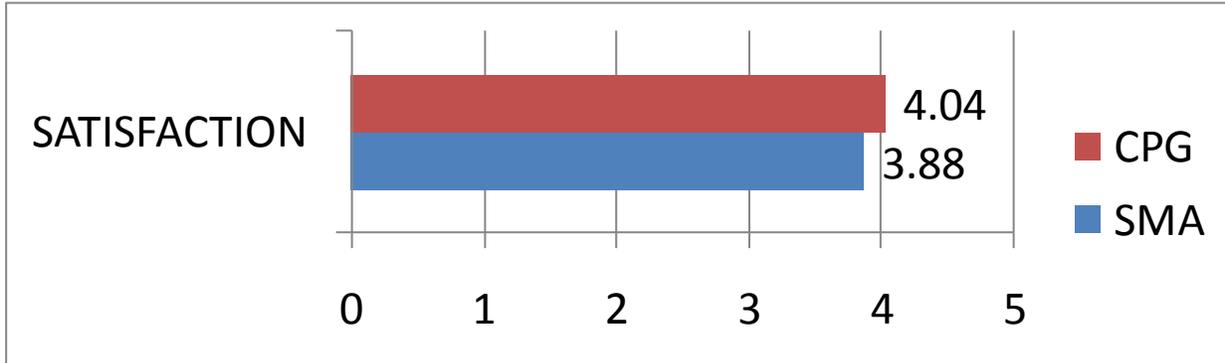
COLLABORATION KEY FINDINGS

The following is a summary of the Key Findings of the Study:

1. SMAs and CPGs are both satisfied with their partnership performance and consider their partnership to have dynamic capabilities. However, as partnership dynamic capability and alignment increase, partnership satisfaction increases. See **Tables 1, 9, 10 & 16**.
2. SMAs are perceived to be very trustworthy (and slightly more trustworthy than CPGs) in performing required tasks. See **Table 2**.
3. SMAs are perceived to better utilize their technological and human resources, along with managerial expertise to perform administrative and retail services. CPGs are perceived to better utilize those resources to perform headquarters selling. See **Tables 3, 4 & 5**.
4. SMAs are perceived to more efficiently utilize their financial resources to perform retail services. CPGs are perceived to more efficiently utilize their financial resources to perform headquarters selling. SMAs and CPGs are perceived to make use of those resources equally to perform administrative services. See **Table 6**.
5. SMAs are perceived to be significantly more reliable in the accomplishment of administrative and retail services. CPGs are perceived to be slightly more reliable in the accomplishment of headquarters selling. See **Table 7**.
6. SMAs are perceived to be more capable on 4 of the 5 dimensions of dynamic capability. SMAs are perceived to be significantly better in overall dynamic capability, organizational vision and learning from interactions with business partners. CPGs are perceived to be slightly better in maintaining competitive intelligence. See **Table 8**.
7. SMAs and CPGs collaborate on headquarters selling about 70% of the time, on administrative services about 52% of the time, and on retail services in 35% of all cases. Overall, SMAs' and CPGs' collaboration on these tasks is seen to be more successful than when they do not collaborate. See **Tables 11, 12 & 13**.
8. CPGs perceive their arrangement with their SMA partners to be more aligned with respect to the needs of accomplishing the task compared to SMAs' perception of their arrangement with their CPG partners. However, as partnership alignment increases, partnership dynamic capability increases. See **Table 14 & 15**.
9. Partnership satisfaction is higher when environment is certain than when it is uncertain, although SMAs perceive environment as more uncertain than CPGs. See **Table 17 & 18**.

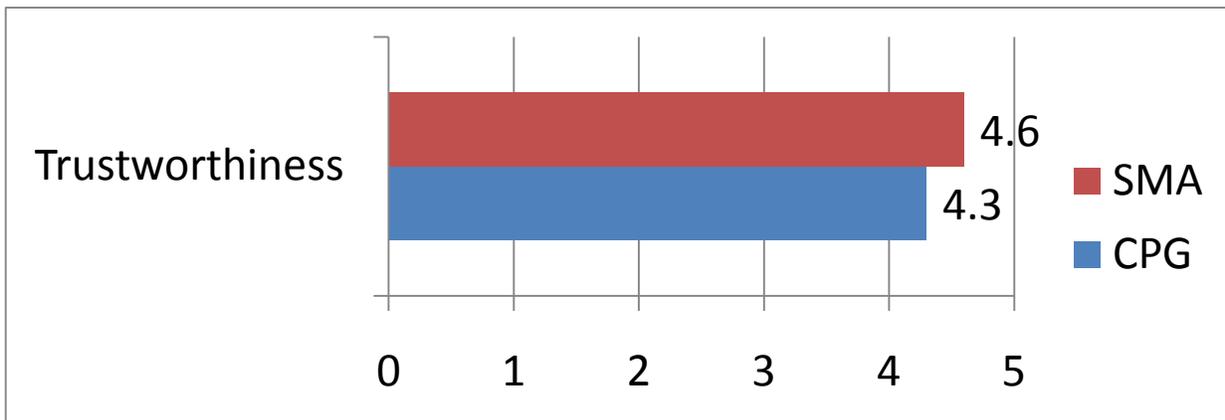
1. OVERALL SATISFACTION

SMA and CPGs are both satisfied with their partnership performance.



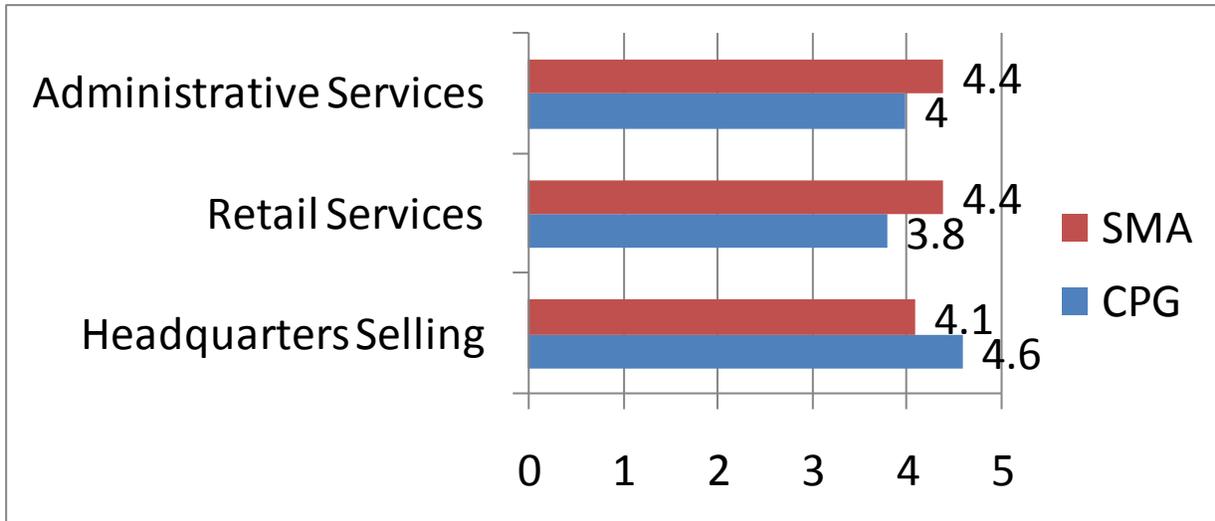
2. OVERALL TRUSTWORTHINESS

SMA is perceived to be very trustworthy (and slightly more trustworthy than CPGs) in performing the required tasks.



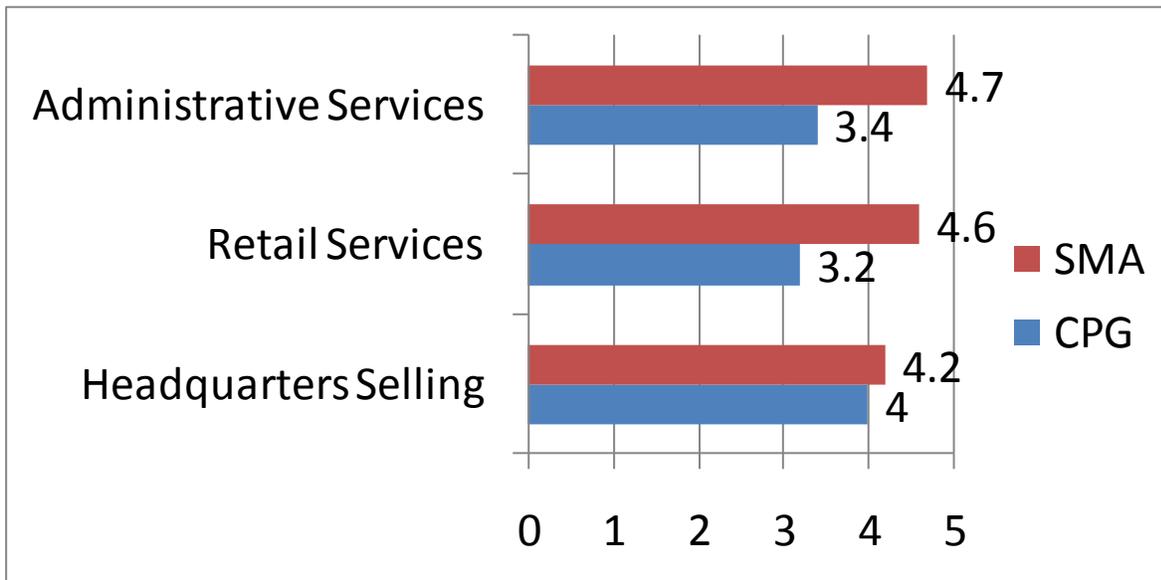
3. USE OF TECHNOLOGICAL RESOURCES

SMA is perceived to better utilize their technological resources to perform administrative services and retail services. CPGs are perceived to better utilize their technological resources to perform headquarters selling.



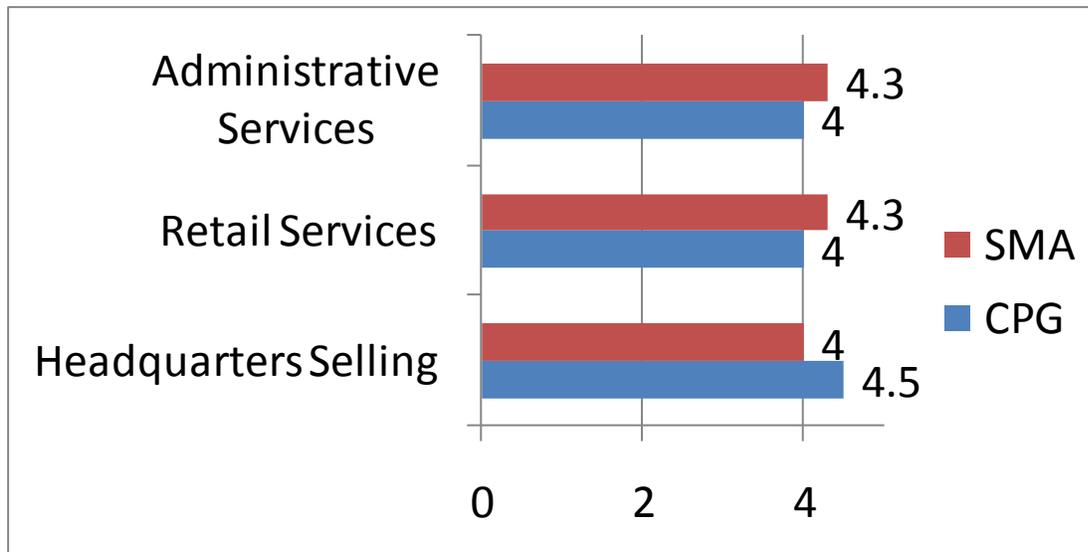
4. USE OF HUMAN RESOURCES

SMA is perceived to make significantly better use of their human resources significantly to perform administrative services and retail services and slightly better utilize human resources to perform headquarters selling.



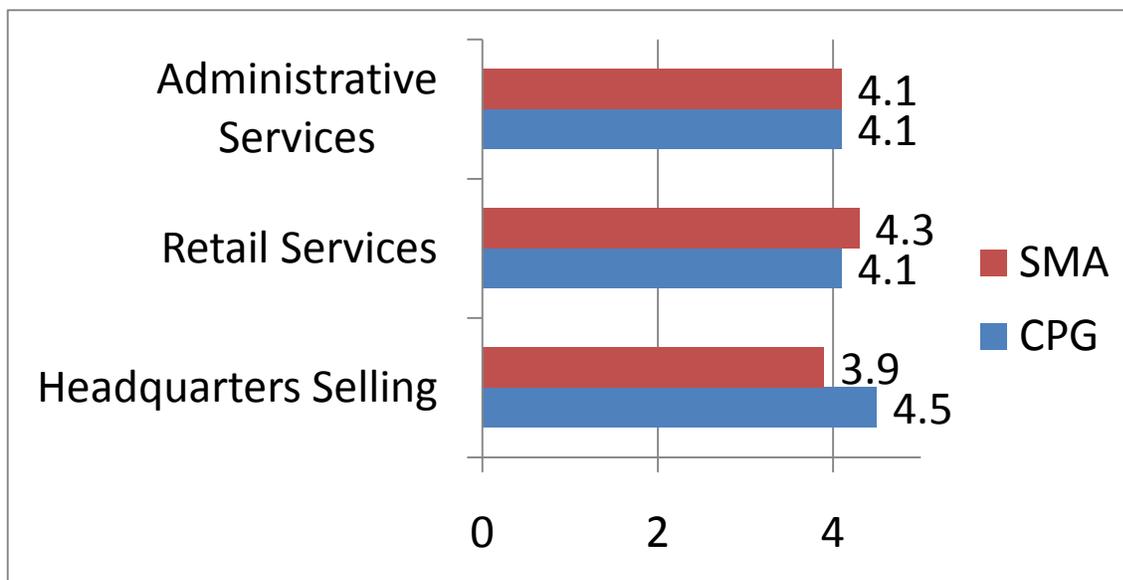
5. USE OF MANAGERIAL EXPERTISE

SMA is perceived to better utilize managerial expertise to perform administrative services and retail services. CPGs are perceived to better utilize managerial expertise to perform headquarters selling.



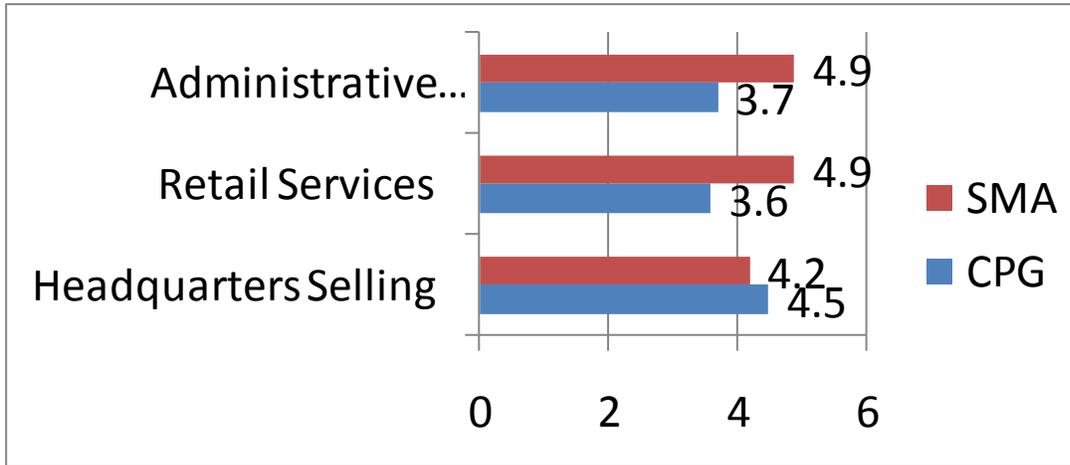
6. USE OF FINANCIAL RESOURCES

SMA is perceived to more efficiently utilize their financial resources slightly more to perform retail services. CPGs are perceived to more efficiently utilize financial resources to perform headquarters selling. SMA and CPGs utilize financial resources equally to perform administrative services.



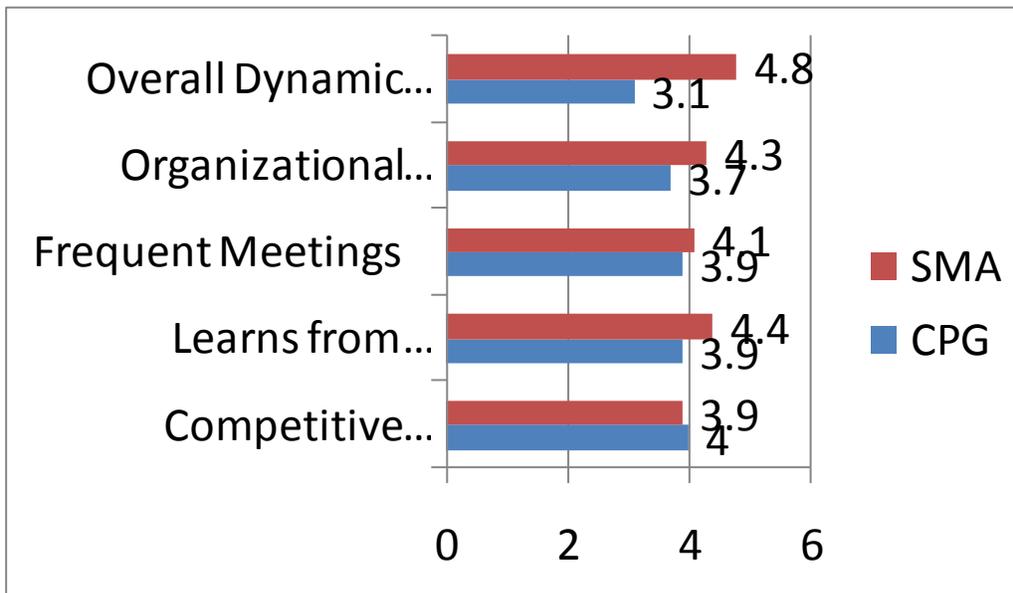
7. RELIABILITY TO ACCOMPLISH TASKS

SMA is perceived to be significantly more reliable in the accomplishment of administrative and retail services. CPGs are perceived to be slightly more reliable in the accomplishment of headquarters selling.



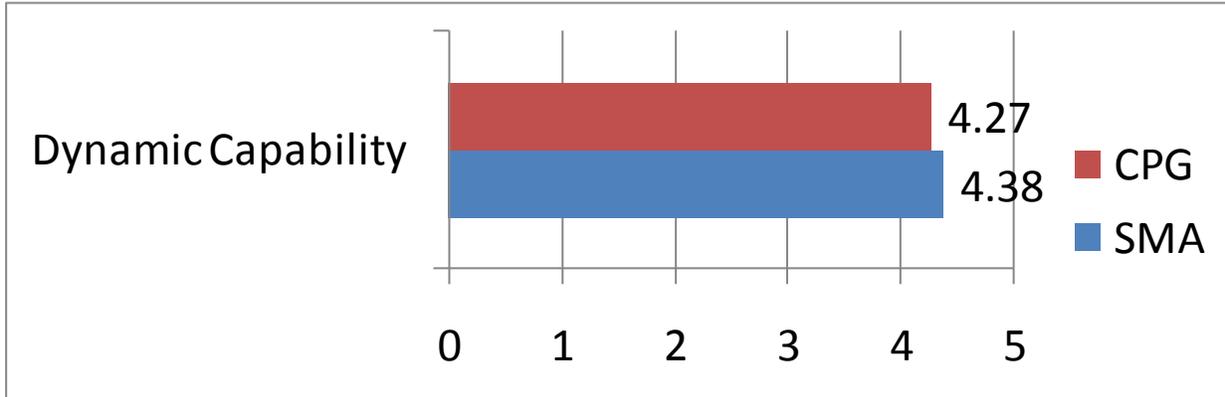
8. DIMENSIONS OF DYNAMIC CAPABILITIES

SMA is perceived to be more capable on 4 of the 5 dimensions of dynamic capability. SMA is perceived to be significantly better in overall dynamic capability, organizational vision and learning from interactions with business partners. CPG is perceived to be slightly better in maintaining competitive intelligence.



9. PARTNERSHIP DYNAMIC CAPABILITIES

SMA and CPGs both consider their partnership to have dynamic capabilities.



10. DYNAMIC CAPABILITIES AND PARTNERSHIP SATISFACTION

Overall, as partnership dynamic capability increases, partnership satisfaction increases.

PARTNERSHIP SATISFACTION

		LOW	HIGH	TOTAL
PARTNERSHIP DYNAMIC CAPABILITIES	LOW	13.04%	21.73%	34.77
	HIGH	8.69%	56.54%	65.23
	TOTAL	21.73	78.27	

11. COLLABORATION IN HEADQUARTERS SELLING

In about 70% of the cases SMAs and CPGs collaborate on headquarters selling. Overall, SMAs and CPGs collaboration in headquarters selling is seen to be more successful than when they do not collaborate.

	%	VERY SUCCESSFUL & SUCCESSFUL %	NOT VERY SUCCESSFUL & NOT SUCCESSFUL %	NEUTRAL %
CPG and SMA do not collaborate	17.4	65	–	35
CPG and SMA Collaborate	69.5	87.5	–	12.5

12. COLLABORATION IN RETAIL SERVICES

In about 35% of the cases SMAs and CPGs collaborate on retail services. Overall, SMAs and CPGs collaboration in retail services is seen to be more successful than when they do not collaborate.

	%	VERY SUCCESSFUL & SUCCESSFUL %	NOT VERY SUCCESSFUL & NOT SUCCESSFUL %	NEUTRAL %
CPG and SMA do not collaborate	65.2	76.7	–	23.3
CPG and SMA Collaborate	34.8	100	–	–

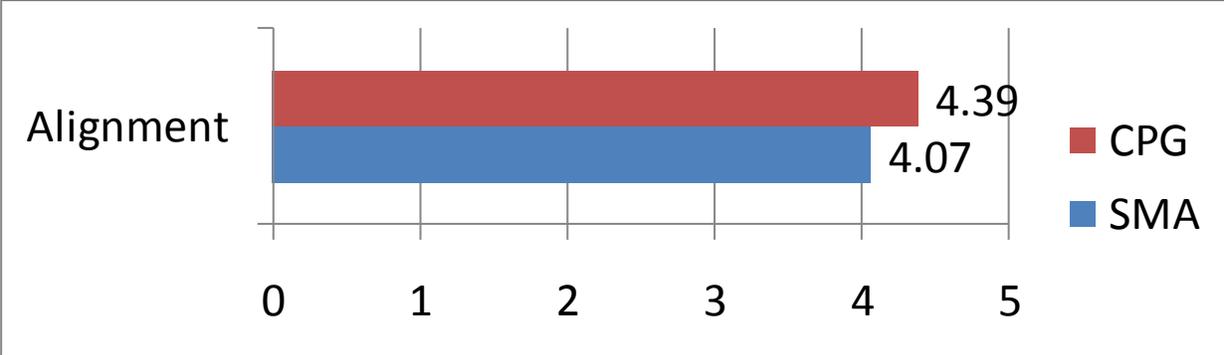
13. COLLABORATION IN ADMINISTRATIVE SERVICES

In about 52% of the cases SMAs and CPGs collaborate on administrative services. Overall, SMAs and CPGs collaboration in administrative services is seen to be more successful than when they do not collaborate.

	%	VERY SUCCESSFUL & SUCCESSFUL %	NOT VERY SUCCESSFUL & NOT SUCCESSFUL %	NEUTRAL %
CPG and SMA do not collaborate	47.8	81.7	-	18.3
CPG and SMA Collaborate	52.2	100	-	-

14. ORGANIZATIONAL ALIGNMENT

CPGs perceive their arrangement with their SMA partners to be more aligned with respect to accomplishing tasks compared to SMAs` perception of their arrangement with their CPG partners.



15. ALIGNMENT AND DYNAMIC CAPABILITIES

Overall, as partnership alignment increases, partnership dynamic capability increases.

ORGANIZATIONAL ALIGNMENT

		ORGANIZATIONAL ALIGNMENT		TOTAL
		LOW	HIGH	
PARTNERSHIP DYNAMIC CAPABILITIES	LOW	21.73%	13.04%	34.77
	HIGH	26.09%	39.14%	65.23
	TOTAL	47.82	52.18	

16. ALIGNMENT AND PARTNERSHIP SATISFACTION

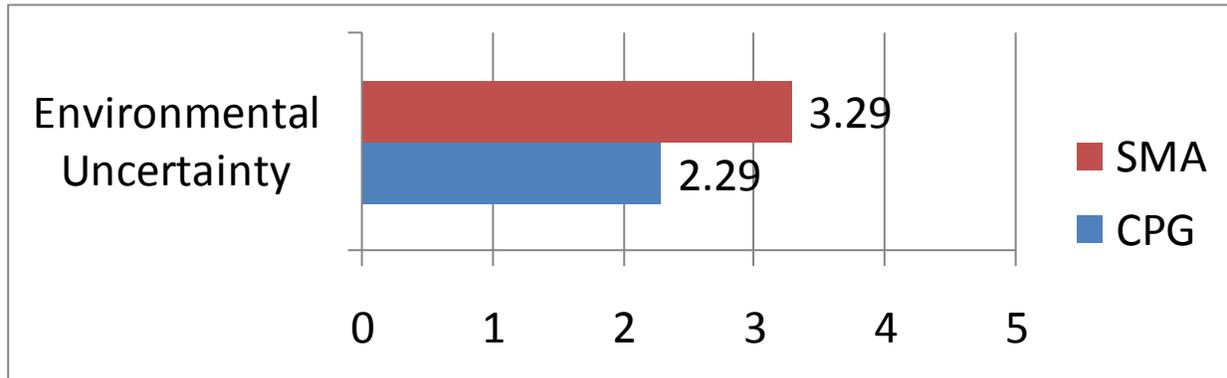
Overall, as partnership alignment increases, partnership satisfaction increases.

PARTNERSHIP SATISFACTION

		PARTNERSHIP SATISFACTION		TOTAL
		LOW	HIGH	
ORGANIZATIONAL ALIGNMENT	LOW	17.39%	30.43%	47.82
	HIGH	4.34%	47.84%	52.18
	TOTAL	21.73	78.27	

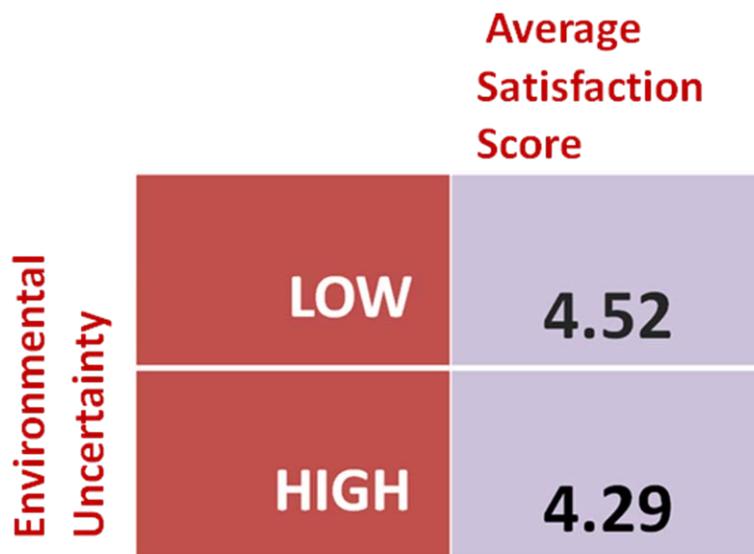
17. ENVIRONMENTAL UNCERTAINTY

SMA's perceive environment as more uncertain than CPGs.



18. ENVIRONMENTAL UNCERTAINTY AND PARTNERSHIP SATISFACTION

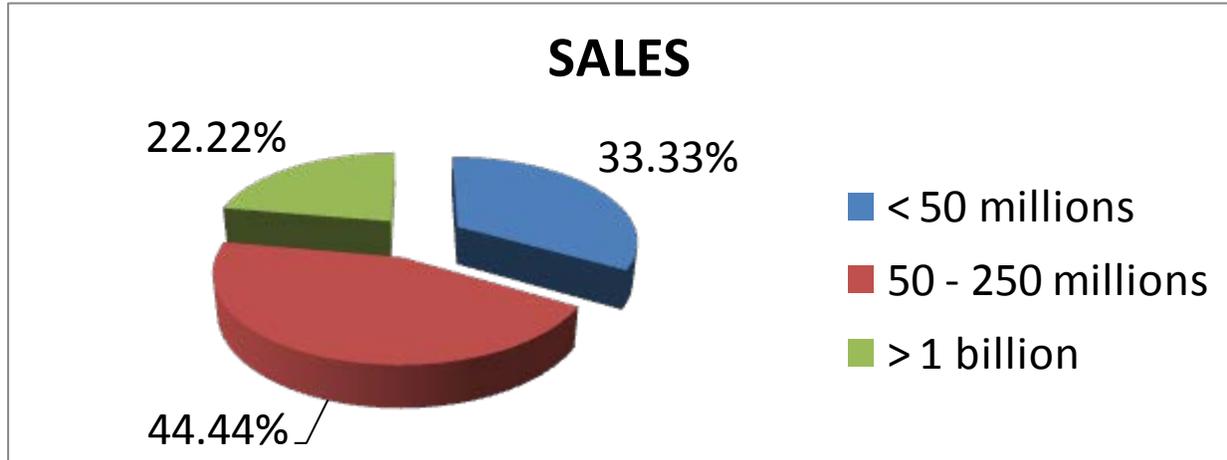
Partnership Satisfaction is higher when environment is certain than when it is uncertain.



APPENDIX

RESPONDENT PROFILES

1. SMA RESPONDENT PROFILE



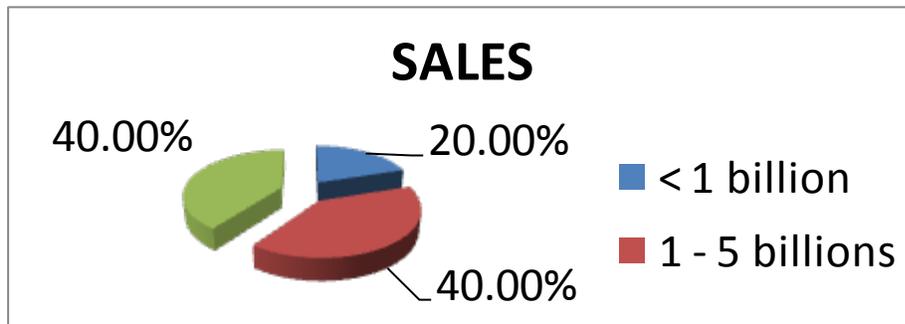
Number of Employees:

Range : (100, 650)
Mean: 344

Years of Relationship with CPG:

Range : (2, 23)
Mean: 9.38

2. CPG RESPONDENT PROFILE



Number of Employees:

Range : (400, 2000)
Mean: 1080

Years of Relationship with SMA:

Range : (4, 10)
Mean: 6.2

ABOUT THE AUTHORS

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Naveen Donthu (www.donthu.com) is the Katherine S. Bernhardt Research Professor and Chair of the Marketing Department at Georgia State University. Dr. Donthu received his Ph.D. in Marketing from the University of Texas at Austin. His expertise includes marketing research, consumer research, advertising, cross-cultural issues, marketing metrics, and electronic commerce. He has published over 140 research papers in leading marketing and advertising journals and proceedings.

Professor Donthu has consulted for several national and international companies such as Apple Computers, Marriott Corporation, Southern Company, BellSouth, UPS, Chick-fil-A, and ServiceMaster and presented executive seminars to managers from many countries.

Naveen has received industry support and several academic grants to conduct research. He has been the President of the American Marketing Association Marketing Research SIG and the VP for Meeting of the INFORMS Society for Marketing Science. He has received the Georgia State University Outstanding Faculty Achievement Award (university-wide award for extraordinary achievement in teaching, research and service).

Belgin Unal, Ph.D.

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ASMC Foundation is a 501(c) (3) tax-exempt organization dedicated to research, education, training, and charitable contributions for sales and marketing agencies (SMAs) and their industry partners. The Foundation has been in existence since 1957 and was founded for its tax-exempt mission by the sales and marketing agencies of the former Association of Sales and Marketing Companies (ASMC) and its predecessor, the National Food Brokers Association (NFBA). As of 2007, SMAs represented more than 54% of all CPG company US retail sales revenues and their use was projected to grow at a 10 to 15% per annum. In fact, as of 2009, more than 90% of CPG use SMAs for retail support in some form. For more information, visit the Foundation's website at www.asmcfoundation.org.



Located in the heart of downtown Atlanta, **Georgia State University** is one of the country's leading urban research universities. The Robinson College of Business has the sixth-largest part-time MBA program in the country. *Bloomberg Businessweek* ranks Robinson's part-time MBA as #1 in Georgia. For more information, visit the university's website at www.gsu.edu.



The **Association of Sales & Marketing Companies** ("ASMC") represents the interests of sales and marketing agencies and their manufacturing clients in the food, beverage, and consumer goods industry, advocating on issues and advancing the interests of their agency and manufacturer members, along with other key industry organizations. The Association was originally organized in 1904 as the National Canned Goods and Dried Fruit Brokers Association; it subsequently changed its name to the National Food Brokers Association and then to the Association of Sales & Marketing Companies, as its membership evolved. For more information, visit the ASMC website at www.asmonline.net.

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PRIOR OUTSOURCING STUDIES – NOTABLE QUOTES

“Maximizing the Impact of Outsourcing”

“CPGs that have carefully considered their use of SMAs often realize double-digit cost savings with improved effectiveness, when done right. We estimate SMA optimization could be worth hundreds of millions of dollars for the industry.” Page 1

“The majority of CPGs believe that SMAs are the lower-cost provider for retail activities, estimating that using an SMA costs 23 percent less than employing a direct sales force, on average.” Page 6

“The SMA industry has invested heavily in technology. SMAs’ enhanced technology provides CPGs with not only better information-based consumer insights, but also more visibility into SMA activities on a day-to-day basis.” Page 1

“The quality of SMA personnel has also continued to improve. Today, SMAs recruit from the same sources as CPGs (or from CPGs themselves). They invest in training, and develop retailer-specific expertise.” Page 1

“Outsourcing is In!”

“Collaborative management is considered a best practice in managing the agency relationship. Collaborative efforts between CPGs and SMAs undertaking joint development activities resulted in long-term gains for all parties.” Page 21

“SMAs should strive to involve clients in major planning and review activities as well as the overall governance of the relationship. Collaborative methods of managing outsourcing relationships are preferred and yield best results. Both retailers and CPG companies are highly satisfied with SMA processes and attributes.” Page 22

“Value of Outsourcing Sales and Marketing”

“CPG companies can help improve SMA performance by involving SMAs in strategic product-market planning and by aligning their incentives to SMAs for improving overall marketing effectiveness.” Page 20

“By operating more cooperatively and collaboratively with SMAs, CPG companies can enhance results in areas of critical importance.” Page 21