WHITE PAPER

FMCG situation audits in best-practice AU/NZ-aligned companies.

How best in class companies find opportunities to grow.

October 2013

www.BforP.com

B4P
Benchmarking for Performance

Contents

Executive summary

Situation audits occur in all five of the functional plans in FMCG Sales and Marketing: portfolio, channel, brand, shopper, and key customer plans.

The situation audit phase answers the question: where are we now? However, this is an over-simplification. In fact, in a best-practice plan, the situation audit asks:

Where are our opportunities to defend and grow this part of the business?

In companies that have collapsed New Zealand (NZ) marketing departments into Australian (AU) ones, the situation audit becomes the critical step observed in successful combined AU/NZ marketing strategies.

Is there such a thing as a "best-practice" situation audit?

Our 2013 benchmarking research of nine Trans-Tasman FMCG firms shows that some companies have evolved in using situation audits. They treat the audit as a process. The research also shows that situation audits are more effective and deliver more opportunities in those companies. Good situation audits find more growth that can be exploited to sustainably grow profitably. That applies whether it is brand, group of brands, customer, or a channel plan's situation audit.

A best-practice situation audit has been observed to deliver approximately 25 sustainable ways to grow. Sometimes this number can go as high as 30, but the sustainability of the opportunity to grow tends to reduce when the emphasis is put on generating a high number of *"things we could do"*.

In combined AU/NZ plans the audit is "opportunity/ threat agnostic" – that is, it evaluates facts with no predisposition toward prioritising resources by market or by function.

What does good look like?

Example: Portfolio and brand planning

The situation audits in all planning processes have preparation steps. Firstly, there would be more than one thinking style invited to the situation audit meeting or workshop. Cross-functional situation audits work well, or mentor and manager working on the plan together as long as they do not both have the same thinking style. For example, if one manager is very numeric and the other is *also* very numeric, they will not typically identify more than 10-15 sustainable ways to grow the business area. However, if one person is more creative or lateral or pragmatic, they will tap into an extra reservoir of ways to grow.

Secondly, there is usually a broad and deep thinking process. People do not think in a linear disciplined way, so there needs to be a series of questions asked of data and facts to flush out the real growth opportunities (and spot areas where the business could lose share). The *sustainable* factor is delivered by managers using competitor-analysis and pragmatic/predictive thinking. When they do not, managers regenerate last year's ideas – even when these ideas were sub-optimal. If the analysis is too narrow, NZ focus is lost.

In an ANZ portfolio or brand plan, the set steps in best-practice firms include competitor and retailer analysis in both NZ and AU. Why? Share loss comes more quickly from competitor or retailer activity. An AU team has poor visibility of NZ retailers and competitors.

Thirdly, there is usually a forced insight-type of step within the process, so that managers do not just observe the facts and/or data, or spend too long analysing the facts/data, but actually derive a *so what?*

Fourthly, around 12 scorecards and prepopulated data are imported from, in this example, the category support function, and from external data agencies. Best practice scorecards usually have a good *graphic user interface*, making the data easy to evaluate. They are ANZ in their focus.

Once managers are in the situation audit meeting/workshop, there are usually a further six steps:

1. **Critical thinking analyses.** In a portfolio/brand plan situation audit these relate to the consumer, the competitive set in both markets, the evolution of the categories, and the dynamics of the customer's treatment of the category. These are fact-based, but not numeric. These were not observed to be the same in AU vs NZ in any of our sample companies from the 2013 research study.
2. **Inputs.** These relate to how the money, data, time, materials, and spend were invested in the prior planning period. This is usually 18-24 months, and definitely not 12 months. Multiple growth opportunities are not realisable in short periods of time.
3. **Data on execution.** How efficiently the activities were executed and the money spent; whether activities were properly and fully implemented whether the customer complied, whether the mechanic or the idea worked, and how well it linked to Trade and digital/social media.
4. **Measuring the outputs and cross-referencing those outputs to the category and Trade overall objective.** This evaluates the effectiveness of the investment and activity and flags up future opportunities for more growth.
5. **Critical *predictive* thinking analyses on competitor activity and likely strategies.**
6. **Analytical analyses on changes in shopper behaviour in the competitive set.**

Summary

Bad-practice sees companies repeating the same activities, which deliver insufficient growth ideas that have no difference to their competitors' ideas. Bad-practice also has been observed as Marketers repeating activities that do not deliver brand objectives such as trial; and the situation audit skips the step of in-depth evaluation of the effectiveness of the activity. The efficiency of the speed-to-market is often not reviewed. Competitor intent is disregarded.

Bad AU/NZ practice has no deep and broad series of analysis steps. This lulls AU Marketing into believing NZ is the same (the retailers and competitors are not). The Marketers then are comfortable (but deluded) in retro-fitting AU activities and insights to NZ.

Introduction

There is a misunderstanding around how much time to allocate to *situation audits* in FMCG firms with low levels of process/ undeveloped ways of working. The time spent planning is allocated as shown in Figure 1 below, whereas in best-practice firms, the time is allocated as in Figure 2.

Figure 1: Poor time allocation

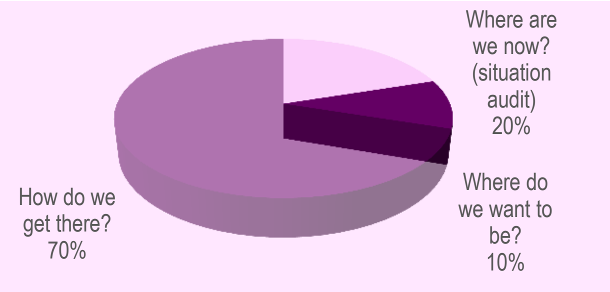
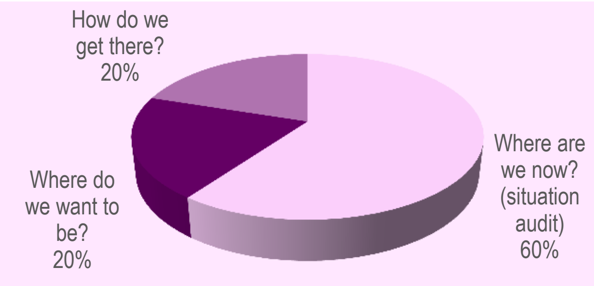


Figure 2: Best time allocation



Here is an example of the benefit of taking longer to audit, from a controlled experiment B4P ran in one workshop.

Two groups were given the same data to analyse. One group was told that gaining the optimum number of insights from the data was key, they were given a facilitator (who didn't give them any answers or insights, but made sure they spent the right amount of time and did not jump to conclusions too soon), and they were told that their insights in particular would be peer reviewed and then reviewed by their line managers. The other group was told none of these factors.

Each group derived different results from the same 15 tables that they were given to analyse. The first group got in excess of 20 insights from 15 tables of data. The second group got less than 10 *insights* and these were more observation than actual insights.

This is an interesting example because it relates to a skill (numerical analytical) that most managers in Sales and Marketing are actually comfortable with. When it moves to skills such as *critical, predictive, pragmatic*, managers are less comfortable because they are often not working purely with numbers. They are working instead with facts, observations about their changing consumer, competitive or retail environment. Or they are being asked to think about what may happen in the future as a result of past events.

That being the case, and in the absence of any numerical data to analyse, the managers' ability to derive insights is often dependent on a good process to develop a situation audit.

The correct management group includes AU/NZ Managers at the situation audit phase because it is at this point all opportunities and threats are uncovered and prioritised.

Where does the situation audit fit?

As Figure 1 and 2 suggest, the three-step process of strategic planning is well known as:

- Where are we now?
- Where we want to be?
- How do we get there?

Step 1 is where the situation audit fits.

Please refer to Table 1 (next page) for common misconceptions about what a situation audit is and is not, and what it does.

What does good look like?

Table 1: What a good situation audit process looks like

Is	Is not
A tool consisting of a series of analyses	A SWOT (a SWOT summarises a series of situation audit analyses)
An internal and external evaluation of all forms of change and numerical and factual data in the consumer, shopper or (depending on the plan being written) retailer environment. And it is done in all markets.	A brainstorming exercise
A thought process	A template
A way to ensure Managers use all six thinking styles required for a broad understanding of the environment in which they are planning	Done by the Manager on his/her own with a damp towel over their head late at night
Facilitated and mentored or coached. Thinking is difficult and many Managers are not self-motivated to do it	Left to the individual to interpret both which analyses will be attempted and to be the final judge of the quality of their own work

A best-practice situation audit would have the following steps and analyses:

- (Depending on the data available) At least 15 scorecards. These use two or more dimensions: a competitive dimension, and a historical/over time dimension. For example, in a customer plan, Managers would look at customer satisfaction over time, versus competitor customer satisfaction. In a brand plan, Managers would look at rates of conversion of trial to regular use, over time, versus direct competitor. The competitive dimension is important when analysing data and often ignored.
- Fact-based analyses (non-numerical) such as analysis of competitor innovation, competitor activity, success in competitor executions. All plan types have this step – brand, category etc.
- …and similar fact based analysis based on <u>all</u> retailer activity and <u>all</u> shopper activity. Even in brand plans and especially in an ANZ plan where shopper, competitor and retailer behaviours are different.
- A lessons learned and post-audit of previous activity, previous thinking around objectives and strategy, and a view on what needs to be done differently.
- Insights. All of the foregoing analyses would result in around 20+ insights in a thought-through situation audit. These should not be prioritised yet, as that happens in the next phase of strategic planning: *where do we want to be.*

The precise nature of a situation audit varies depending on the area for which it is being written:

- Portfolio plans focus more on new product development, corporate level competitor activity, major shift in channel behaviour/selection.
- Brand plans focus more on competitive set dynamics, ATL/BTL/social media effectiveness and efficiency, and incremental share steal.
- Category/shopper plans focus more on the efficiency and effectiveness of execution, activation and measurable shopper behaviours such as *grab and go* or browsing behaviours.
- Channel situation audits look at major shifts that exist above any single retailer supply chain, cost to serve, mainstream and alternative channel dynamics, and retailer competitive dynamics.
- Key customer planning situation audits look at customer satisfaction, engagement, alignment, and the efficiency and effectiveness of trading terms, spend, activation, and competitor activity.

In best-practice AU/NZ firms, following on from a ANZ situation audit is a process described as: “agnostic resource allocation”. In this step, all of the AU/NZ opportunities and threats are filtered by three or more factors and then all five ANZ resources (people, data/research, time, materials, money) are allocated based on maximum Return on Investment.

As opposed to Marketing, Sales, Category or Australia vs New Zealand.

Summary

There are a number of reasons why people do not do good situation audits over and above the most popular excuse. This excuse is *"We don't have the data"*. Good situation audits rely on a balance of data and observed fact. So managers who are relying on data to produce a situation audit are being overly idealistic – they hope one day they will have perfect data. But they are also being negligent in that they are ignoring the fact-based analyses that need to be done irrespective of whether the data exists or not.

The belief that NZ "is the same" reflects a poor situation audit process. Only narrow audits ignore local (NZ) shopper behaviours, competitor and retailer activity/intent.

In reality, senior people managers should look out for the following behaviours and coach people accordingly to ensure that they can build an audit that delivers 25+ sustainable growth opportunities:

- **Solutionitis** – The manager will say *"I already know what to do, so why would I bother doing a situation audit?"*
- **Action orientation** – *"What are waiting for? Let's get out there and do something. Oh, by the way, excuse me while I take this call."*
- **Lack of motivation** – They do not know how to do a good audit, and they have never been coached or mentored.
- **Lack of focus** on strategic planning in the company as a whole, and core shared belief that the growth opportunities (and threats) are obvious.
- **No understanding** that less obvious, more sustainable growth opportunities only come from deeper situation audits.
- **No appreciation** of the different thinking styles required to produce a good audit (numerical, critical, predictive, pragmatic, lateral and action-oriented).
- **Cultural myopia** – a belief that no better opportunities exist in NZ than in AU. And that Kiwi consumers, shoppers and retailers will be happy with NZ only ideas and no techniques, tactics, or ideas from other markets

Contact us

PHONE	+61 2 8005 0753	in	Benchmarking for Performance
FACSIMILE	+61 2 9293 2930		@BforP
EMAIL	info@BforP.com	f	Benchmarking for Performance
WEBSITE	www.BforP.com		
WEBEX	BforP		