

RETAIL COMPLIANCE: The Facts

There are few topics more likely to drive up a publisher's blood pressure than "retail compliance". It is a phrase which seems to encapsulate everything that publishers feel is bad about the newstrade supply chain: low service standards, poor follow-through and a lack of accountability. Yet is the situation as bad as many people think it is? Why does it happen? And what can be done about it?

WHAT HAPPENS IN OTHER INDUSTRIES?

Significantly, retail compliance is currently a hot topic right across the FMCG business and not just in the magazine sector. Trade association Point of Purchase Advertising International (POPAI) estimates that £1.17bn is spent annually on point of purchase (PoP) materials alone across all FMCG industries. Yet the average implementation in-store is reckoned to be running at around 50% and is getting worse. Only half of the promotional material that is delivered to the shop actually finds its way into the sales area – a pitifully low percentage which has generated a major cross-industry compliance-checking programme orchestrated by the Institute of Grocery Distribution.

WHY IS THIS HAPPENING?

The simple fact is that local shop management is simply not committing to schemes that are agreed with suppliers at head office. The retailers themselves have a very clear list of reasons why. Their view is that compliance is a shared responsibility with suppliers and that a number of operational issues need to be addressed:

- There is too much promotional material available already with some shops simply not having the physical sales space to mount the displays.
- The display material can take too long to assemble and place in a busy retail environment.
- There is too much unauthorised in-store merchandising activity from suppliers – this is a prime area that the supermarkets' penalty ratecards are trying to address.

There are a number of practical suggestions springing from these observations:

- Everyone should concentrate on mounting fewer, bigger promotions.
- Display units should be trialled before rolling out: How easy are they to assemble? What do they look like to the shopper? Where will the space come from?
- Make it easier for store management to assemble the material and run the promotion.
- Communicate and incentivise store management. Get "buy in" from the shop staff at a local level.

The practical output from all this is that suppliers in every sector are having to spend much more on field marketing (1) to mount in-store promotions and (2) to monitor in-store compliance through the promotional period. All this comes at a time when manufacturers' spend on retail promotions is rising exponentially and when there is a wider and wider range of in-store mechanics, from simple, cardboard shelf-talkers through to plasma TV screens.

MAGAZINE COMPLIANCE

If this is the picture in the broader FMCG business, then what is happening specifically in the magazine category?

In the Spring of this year, the Periodical Publishers Association (PPA) commissioned Wessenden Marketing to look at the whole area of in-store retail promotions by interviewing some of the major publishers and distributors. The resulting report, "PPA Retail Promotional Spend Study 2004", provides an overview of the major magazine retailing issues.

A very significant finding was that while retail compliance for magazines still remains a major issue, the general view was that compliance levels have risen markedly over the last two years as retailer head offices, under pressure from publishers, have focused on driving compliance through the branches more rigorously. Some chains, such as WHSmith High Street, have implemented their own compliance-checking systems so that they know ahead of the publisher where problems are occurring. However, a number of publishers complain that they are paying for this compliance checking through the increased rate card prices for in-store promotions.

There are **four distinct dimensions** to "compliance":

1. Basic listings of the range of titles which a shop can order.
2. Basic display planograms as to where sectors and titles within each sector should be displayed.
3. Promotional schemes: correct placement of Point of Sale (PoS) material.
4. Promotional schemes: correct supply of copy to support the promotion.

It was the general publisher view that compliance in areas (1) and (2), the basic day-to-day operation of listings and displays, is high (in the 90's% for most of the major multiples) and that this will improve with more "hard-ranging" as the retail multiple head offices exert tighter central control over their branches. However, compliance during promotions is felt to be lower and much more variable from chain to chain.

PLACEMENT OF PoS DURING PROMOTIONS

In the PPA project, the major distributors gave their subjective views of which the best and the worst retailers were when placing PoS during a paid-for promotion, providing a score out of 100 per retail group. There was considerable agreement as to who the best and worst are with four broad bands emerging:

Promotional Compliance Score	Retail Chain
90%+	WHSmith High St., WHSmith Travel, Borders, Morrisons.
70-90%	Asda, Tesco, Waitrose, Stars News, Alpha, Budgens, CWS.
50-70%	Sainsburys, Co-op, Balfours, SPAR, T&S, Premier Club, Superleague.
Under 50%	Alldays, petrol station forecourts, Safeways, Somerfield, TM Retail.

Averaging the scores out across the whole retail estate points to an unweighted industry average of **65-70%** in terms of PoS compliance (where the performance of each chain carries an equal weight irrespective of its size). Taking the size of the retailer into account, translates into a weighted average of **70-80%** which is where many respondents subjectively feel the industry currently stands.

COPY COMPLIANCE DURING PROMOTIONS

Another related issue is whether there is enough copy in the system to support an in-store promotion, with many retailers claiming that this is simply not the case with supplies often running out before a promotion has run its course.

How bad is this issue? This is much more difficult to pin down, but the general feeling seems to be that as many as half of in-store promotions run into some kind of copy supply problems. The publishers were very clear as to why this happened:

- Sufficient supplies have not reached the shop from the wholesaler (reckoned to account for 20% of low copy compliance).
- Adequate supplies are in-store, but the copies have not been shifted from the stockroom and on to the shelf (reckoned to account for 80% of low copy compliance).

So the publishers see this a major retail problem. The retailers recognise that they are not delivering the in-store standards that they should do, but add that publishers are not very good at giving detailed and advanced notification of their promotions. The wholesalers claim that publishers go off and organise retail promotions at head office and then fail to brief wholesale fully as to box-level quantities and the detail of how the promotion is going to work, sometimes simply failing to deliver sufficient copy to cover the commitments they have made. As always, there is a great deal of finger-pointing, but it all seems to come back to better communication from the publisher down.

The retail sector still regards the magazine business as being very amateurish in comparison to other FMCG categories when it comes to promotion planning. Longer lead times, more detailed briefings, detailed box by box copy allocations: these are all things that retailers have demanded and which publishers are delivering much more efficiently than a few years ago. Wholesalers are getting better at actioning promotions, but still need to deliver more proactive management of the retailers that they serve in their catchment areas.

Yet ultimately the big and worrying questions are about the retailers themselves. Are they focusing sufficiently on magazines to deliver the on-shelf control that this difficult-to-manage category demands? Are there enough trained and committed staff at the sharp end to deliver the required compliance levels? Are magazines simply important enough for retailers to really commit to?

The general conclusion seems to be that compliance is not as bad for magazines as it used to be or as some publishers think that it is. Yet there is still room for improvement, especially as the cost of retail promotions continues to rise. As publishers look more and more rigorously at their return on investment in retail promotions, compliance is one of the factors which impacts significantly on the effectiveness of any in-store activity. If publisher budgets are drifting back above-the-line and into subscriptions promotions (as all the evidence points to being the case) then retail compliance is one of the factors that is driving this.

Yet the ultimate responsibility for driving change must lie with the publisher. Better and longer-term planning, more detailed communication, being much clearer as to who does what in the supply chain, fulfilling copy commitments efficiently – all these are factors which publishers control and will drive better compliance levels from the top down.

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