



TAKING AN INTEGRATED VIEW ON POINT OF SALES MATERIALS SUPPLIES

3 LESSONS FROM L'ORÉAL TO INCREASE LOYALTY AND OBTAIN NEW
CUSTOMERS WITH GIFTS AND TESTERS

By IMD Professor Ralf W. Seifert, with Ekaterina Kuznetsova

IMD
Chemin de Bellerive 23
PO Box 915,
CH-1001 Lausanne
Switzerland

Tel: +41 21 618 01 11
Fax: +41 21 618 07 07
info@imd.org
www.imd.org

Luxury brands have to deliver a complete shopping experience to be able to sell their goods at high prices. Point of sales materials (POSM), such as small gifts or product testers, help create this experience and have to be supplied to stores in addition to the sales products themselves. Applied correctly, POSM can improve customer brand loyalty and new customer acquisition.

Richard Markoff, Supply Chain Standards Audit Director of L'Oréal, says that for L'Oréal's luxury brands POSM are crucial: *"If we do not deliver the full experience and the necessary supplementary goods, it is as much of a loss or even worse as not delivering the product itself"*.

Most companies, however, pay little attention to adequately supplying POSM, do not track in stock availability and thus do not see and understand the impact of missing POSM. Often company internal processes and incentive systems are purely revenue driven and solely focus on sales items. POSM end up being treated as an afterthought despite their crucial role for a complete shopping experience - constituting a hidden supply chain.

L'Oréal, the world's leading cosmetics company, with more than 22 billion euros in annual revenue, recognizes the impact POSM have on sales. They have also developed ways to minimize the supply chain challenges associated with adequately providing these materials. L'Oréal initiated several improvement efforts to increase the transparency and visibility of the flow of POSM and nowadays even references both POSM and sales items separately. While doing this, POSM items are treated more like marketing expenses rather than inventory items.

	# Sales References	# POSM References	Ratio of POSM / Sales	Difference vs. Total
Total	32'000	25'600	1.1	--
L'Oréal Luxe (Lancôme, YSL, ...)	6'700	10'800	1.6	+45%
Active Cosmetics (Vichy, La Roche-Posay, ...)	2'100	2'500	1.2	+9%
Consumer Products (Garnier, Maybelline, ...)	23'200	12'300	0.5	-55%

Exhibit 1: Comparison of some key metrics across the business divisions of L'Oréal

Often underestimated in the amount and not visible at first sight, Exhibit 1 gives a striking insight into the importance of POSM for the main divisions of L'Oréal's business. The high ratio of POSM to sales clearly shows the relative importance of POSM in L'Oreal's supply chain. This ratio also underlines the overall role of POSM for the business strategy of the various divisions: a high value for active cosmetics and luxury brands on one hand and a relatively lower value for the consumer products division on the other hand.

Pierre Boulanger, the former Global Supply Chain Director for the Luxury Division of L'Oréal, confirms that for the luxury brands there is an upward trend on top of the already high amount of POSM. According to him, the amount and variety of POSM has increased significantly over the past 10 years. This is mainly due to two reasons. First, the competitive situation among department store chains has led to more customized POSM and thus an increased variety. Second, there are more special events and new product launches nowadays, leading to a higher total amount of POSM.

The issue is not unique to the cosmetics business, but equally applies to other businesses offering high margin products. The range goes from jewelry companies to sporting goods manufacturers, all of whom place more and more emphasis on POSM. Indeed, the alignment of their POSM supply chain with the business strategy has recently become a focus, acknowledging the increasing POSM variety and amount as well as a previously largely hidden supply chain.

The complexity, however, of having separate supply chains for sales items and POSM - ideally provided in a bundle - remains a challenge for many companies. The impact of misalignment can be enormous, considering that POSM tie up resources and yet have a significant influence on sales. So, where exactly are the main challenges?

Issue 1: Misaligned incentives inside and outside company boundaries

The various divisions and involved companies do not see the relevance of producing, ordering and delivering the right amount of POSM. Most businesses still operate in a purely revenue driven environment. Factories are only awarded for the production of the sales items. Department stores only see additional value in stocking and displaying the sales stock keeping units. The forecasting of POSM is treated as a pointless task as no quantification of the relevance exists.

Issue 2: Missing vendor education and low willingness to comply

Vendors do not share enough information about planned promotions and do not align their efforts with your company. Retailers often have limited knowledge about the right use of POSM. Instead of well-directed distribution of samples as advertising material for customer acquisition, department stores often just treat samples as gift items. In addition to this non-qualitative approach, there are also operational issues: the customer wants to save costs; POSM are ordered separately and provided by the supplier in a push-mode via a parallel supply chain. Poorly coordinated deliveries, complete lacking of the right POSM or misplacement lead to failed product launches and low sales.

Issue 3: Lack of traceability and appropriate indicators

You can only improve what you measure. The currently used key performance indicators (KPIs) often only capture the flow of the sales items and staff is evaluated based on the sales data. The KPIs usually do not measure the combined performance over several dimensions. Although the usage of POSM increases the sales, as long there is no awareness of the impact, it is necessary to create an additional incentive for the employees. Tracking of POSM is crucial to guarantee the success of such a combined indicator and to minimize additional costs.

Managers also need to have a closer look at the different kinds of POSM. At the most basic level, we need to differentiate whether POSM contain the "sales product" or not. Leading companies use a much more precise classification for their POSM. L'Oréal, for example, uses more than 30 different POSM attributes to classify the items. The classification includes trial sizes, scent strips, gift set boxes or counter display units - underlying their holistic approach and effort to capture all of the POSM types used by the company.

Applying the criterion for classification from above, let us reference the two different kinds of POSM by POSM1 and POSM2. POSM1 contain the sales product in some form and thus they often share the capacity of the sales material supply chain. As these items are demanded regularly throughout the year, a clear forecasting procedure can be developed. On the contrary, POSM2 items are sales-product-free and supplied in a more independent manner. They are mostly one-time items designed for special occasions such as seasonal offerings or customized displays for big accounts. Forecasting is thus more challenging and dependent on the opinion of sales experts in the field.

POSM1 and POSM2 serve very different goals in the business strategy and differ in relevance for the various divisions. At L'Oréal, some brands rely on POSM1 as their principal marketing expenditure for new customer acquisition, whereas POSM2 are more relevant for the luxury brands to retain customers. *"A consumer expects additional tokens when purchasing a luxury cosmetics item and is disappointed when not treated accordingly,"* says Richard Markoff of L'Oréal luxury brands.

What can be done to improve the situation? We recommend concentrating the efforts around the three issues introduced earlier to attain quick, but sustainable results.

3 recommendations:

1] Do all departments and partners understand the relevance of POSM for success?

Create awareness and comprehension for the link between POSM availability, current and future sales and customer loyalty. Quantify the effect of lost potential with a study to show the missed sales when POSM are not supplied on time, or in the right variety and amount. Establish face-to-face communication between key personnel inside the company and with key outside partners. This helps to overcome the challenge of competing self-interests between different divisions and companies, improves cooperation and finally raises revenue.

2] Do you have influence on the usage of POSM up to the point of sales level?

Offer workshops to improve the understanding and the awareness on the vendor side for qualitative usage of POSM. Establish collaborative forecasting of promotions with the vendor and offer all-in-one packages or a "Vendor-Managed-Inventory-Concept" for POSM. Introduce either a combined shipping of POSM together with sales items or agree with the vendor on a more cooperative delivery process for POSM to change the push-approach into a pull-mode. This aligns the flow velocity of POSM and sales items, secures the arrival of POSM at the point of sales and eases the work of the vendor.

3] Do your KPI reveal the flow and drive the POSM forward along the supply chain?

Create an incentive to move the POSM by tracking POSM performance with more holistic KPIs. Introduce KPIs capturing all three dimensions for promotion events such as new product introductions: measure sales items, POSM availability and punctuality in one indicator. Increase success by allowing launches only when an indicator threshold is met. Convert fixed costs such as warehousing to variable costs and make all involved parties pay for used space and capacity.

When managed and supplied correctly, POSM can be a great business enabler.

[Ralf W. Seifert](#) is Professor of Operations Management at IMD and director of the [Leading the Global Supply Chain \(LGSC\)](#) program.

Ekaterina Kuznetsova is a PhD candidate at the Chair of Technology and Operations Management at EPFL. She holds a M. Sc. Degree in Physics from ETH Zürich and worked at ABB in the area of Information Systems.

Related Programs



LEADING THE GLOBAL SUPPLY CHAIN - <http://www.imd.org/lgsc>

Growth through agility and efficiency

Program Director Ralf W. Seifert

- Understand and manage global supply chain complexity and risks
- Protect sales and revenue growth through efficient execution
- Anticipate surprises and avoid problems within your global material, information and financial flows
- Explore collaboration and various forms of integration that allow you to take advantage of uncertainty



ORCHESTRATING WINNING PERFORMANCE - <http://www.imd.org/owp>

The global business program for individuals and teams

Program Directors Michael Wade, Dominique Turpin

- Get exposed to the latest management thinking and to practical and innovative solutions for your business
- Anticipate global business trends
- Boost your performance, broaden your perspectives and expand your global network
- Design the program that suits you and your team
- Become a complete executive through activities that develop your mental, physical, and emotional health