

# Logistics Transfer to Marketing Activity Outsourcing: Setting Project Objectives Through Key Performance Indicators

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**Abstract.** The article presents project task of outsourcing merchandising as a marketing activity of a customer enterprise within the framework of a logistics system. Based on the analysis of working scenarios and comparison of existing schemes for services provision by full-time employees under conditions of staff and final service outsourcing, the project objectives are formulated through employees' key performance indicators and the ways to provide services are determined. Project risks are specified as a measure to prevent / reduce negative consequences of risks and unification of merchandising is considered. The author suggested that when implementing the project within the framework of the submitted technical specifications and taking into account justification of management decision on the choice of supplier-outsourcer in the subsequent outsourcer, taking on the contract full responsibility for the state of external trading network of the customer company in the fixed territory, it will actually proceed to work evaluation through the presented key performance indicators, in particular, on the example of a point of sale team performance. A clear formulation of key performance indicators for outsourcing company will create a "transparent" control system for each component of a comprehensive merchandising service and thereby ensure process efficiency aimed at optimizing customer logistics flows.

## 1. Introduction

Increasing enterprise's logistic processes efficiency, consisting in creating effective organizational methods that are adequate to modern technological and economic realities leading to potential growth and formation of competitive advantages of the entire logistic system, should, in the author's opinion, be based on the concept of stream processes [1, 2]. In the context of the author's study of logistics flows optimization, where marketing activities of service enterprises are the subject, issues of outsourcing various operational activities and ways of their implementation are clearly related to the need to take into account this interaction effectiveness with currently demanded algorithm for calculating key performance indicators [3, 4, 5].

This article presents a practical case of the project to outsource the tool of integrated marketing communications at points of sale – merchandising [6, 7]. At the same time, according to the author, the project itself is interesting, due to the fact that it considers linking of technical specifications to those expected results for each component of transmission subject which reflect performance indicators, namely key indicators, which, of course, develops analytical base for substantiating specific management decisions of logistics units.

In addition, it seems to the author that the question of clearly formulated benchmarks for an outsourcer is a kind of guarantee - image component of the customer of the service that will be preserved while maintaining the overall marketing concept of the logistics system adopted by the company in the form of a marketing plan / trade marketing program and other local documents [8].

## **2. Methods**

The author's study, the results of which are presented in this article, is based on such methodological foundations as the theory of logistics, the theory of synergetics, and the theory of efficiency. Measurement approaches are presented as system-synergetic, stream-process, resource-oriented; in turn, integrated logistics concept is applied and coordination concept of controlling [9].

Information and analytical base of the study includes data from point of sale marketing research conducted by method of questioning and observation. Among economic management methods, methods of proactive management, stream-process, value-oriented are distinguished.

## **3. Results**

Considering logistics system as an object of study, it can be stated that key performance indicators (hereinafter referred to as KPI's) are formed to achieve the company's strategic goals, representing projections of strategic activity indicators, assuming that complex indicators allow for the management and development of the system immediately according to several significant characteristics [10, 11].

Achieving the results of the study involves optimizing the stages of outsourcing merchandising process as marketing activity, elements or subsystems, taking into account their complex interaction which will lead to prevention of isolated consideration of effectiveness of any element or stage of the process from the system and the whole process and elimination of managerial field tension of the entire logistics system [12].

Regardless of the author's project's private nature, it is noted that successful implementation of KPI's in the enterprise is ensured by [13]:

- detailed formalization of business processes;
- careful rationing of logistic operations;
- developed automated accounting system and operational calculation of operations;
- use of indicators for calculating and making managerial decisions in the logistics system as a whole and at the level of its individual (functional) subsystems.

As part of the author's study, a description of the pre-project part of outsourcing of marketing activity through KPI's indicators is presented.

The object of the study was a company that works in the service sector and organizationally provides services within the Group of companies with an extensive branch (regional) network. The specifics and characteristics of network trading using outsourcing, logistics and marketing are presented in the article [13].

The subject of the project is comprehensive merchandising service transferred to outsourcing [14].

For the purposes of further application and development of the concept of logistics system effectiveness when using KPI's, the process owner is functionally defined - a trade marketing unit that includes several operational logistics activities: POSM - quality control and procurement, COPS - professional development of employees and sellers in points of sale and sales driving in points of sale.

Functional optimization in definitions of the stream-process concept as applied to the object of research implies that the company-outsourcer has the following process executives:

- B2C SVR (supervisor) – leads point of sale group of 5 -7 people;
- B2C Merch (merchandiser) - draws up the retail of all channels except SR;
- B2C SR (sales representative) – develops channel retail SR;
- B2C MerchSR (combined territorial specialist) – draws up and develops retail of all channels;
- B2B SR (sales representative) – sustains sales B2B;

- B2B MerchSR (combined territorial specialist) – sustains sales B2B and controls registration of B2B zones in retail.

**Table 1.** Components of the integrated merchandising services of the customer company for outsourcing purposes [Compiled by the author].

Components of a comprehensive merchandising service	Tasks on individual service components	Service Formats
Visual merchandising	<ul style="list-style-type: none"> <li>– display of products on the best shelf / showcase of a point of sale * in comparison with competitors;</li> <li>– compliance with planogram ** through sales channels;</li> <li>– dealer observing shelf recommended price;</li> <li>– placement of current POSM *** and RM ****;</li> <li>– support for new product launches.</li> </ul>	<ul style="list-style-type: none"> <li>– online reporting after visiting a point of sale for the Customer / Partner / Dealer / Point of sale;</li> <li>– POSM and RM balances and logistics management, control and placement at the outlet;</li> <li>– delivery of relevant ISM and POSM;</li> <li>– reporting of product balances / RM / POSM / competitors.</li> </ul>
Sales staff training and knowledge testing	<ul style="list-style-type: none"> <li>– providing knowledge of product line and services of company sellers in distribution network;</li> <li>– training sellers with sales scripts;</li> <li>– preparing retailers for new product launch;</li> <li>– knowledge test.</li> </ul>	<ul style="list-style-type: none"> <li>– distance learning system - courses, tests for sellers;</li> <li>– “Memo to the seller”, sales scripts;</li> <li>– webinars for sellers;</li> <li>– full-time training of partner trainers.</li> </ul>
Involvement in motivation programs	<ul style="list-style-type: none"> <li>– implementation of the sales plan (Gross sales, Sales Mix) using motivation system;</li> <li>– implementation of tactical KPI's for program participants;</li> <li>– flexible setup system for sales channels.</li> </ul>	<ul style="list-style-type: none"> <li>– involvement of sellers to participate in bonus program</li> <li>– increased penetration of motivation programs;</li> <li>– transparent reporting at the level of the Customer / Partner / Dealer / Seller.</li> </ul>
Distribution management	<ul style="list-style-type: none"> <li>– monitoring company products availability in retail outlets;</li> <li>– updating outlets database;</li> <li>– market overview for distribution expansion opportunities in a fixed area.</li> </ul>	<ul style="list-style-type: none"> <li>– interaction with dealers on the territory to ensure products distribution at the outlet;</li> <li>– development of outlets base in the fixed territory.</li> </ul>

Note to table 1:

\* *A retail outlet* is a retailer in the territory assigned to the branch in which sales of any products are made directly to the consumer, and in which the company's products and services are presented (or may be presented). Outlets form a retail distribution network; \*\* planogram is a plan diagram of the

placement of goods on a specific retail equipment of a point of sale with specified calculation parameters; \*\*\* POS materials (POS-materials, POS –point of sales - a point of sale) are materials that promote promotion of a brand or product at points of sale. For the customer company under the Project, this is a plastic product in which information and reference materials are placed (hereinafter - RM); \*\*\*\* RM - reference materials - these are all types of printed products of the customer company (leaflets, posters, price lists distributed at points of sale, etc.).

**Table 2.** Comparison of existing schemes for integrated merchandising services provision for outsourcing purposes [Compiled by the author].

Service options	Staff members of the customer company	Outsourcing (staff)	Outsourcing (final service)
Visual merchandising	Forming merchandising standards, training and creating merchandising skills are the company's responsibility	Non-core service, training and the formation of merchandising skills on the side of the Customer	Profile service, built-in training system for calculation and work with POSM. Expert assessment of standards, trend-based adjustment
Material logistics	Company facilities	Missing. Customer infrastructure is used	Profile service, logistics is part of a comprehensive merchandising service
Sales staff training and knowledge testing	Company responsibility	Missing. Customer Responsibility	The training system is on the side of the Partner (full-time and distance). Professional staff of trainers
Brand involvement, motivation	High brand engagement. Motivation is average, as compensation for full-time employees is only 25% depending on the result	Medium. Motivation is comparable to motivation within the company-customer. Partner is not responsible for KPI's business	Brand involvement within the right system of working with the customer is high. Motivation directly depends on the result.
IT-platform	Company own development (non-core) or purchase from the Integrator	Missing. Customer Responsibility	Partner's own development, 24x7 mode with Customer access
Scalability	Long process of expansion and optimization	The process of attracting resources is identical to the Customer	Flexible and efficient recruitment system for the task

Work team on the project is a team of outsourcer (agency) and a team of a customer company merchandisers (“point of sale team”).

In the customer company, the team of merchandisers performs the following functions:

- Trains point of sale staff;
- Trace competitors' behaviour;
- prepares visualization in retail;
- agrees on the best placement;

- identifies sellers' needs to increase their loyalty.

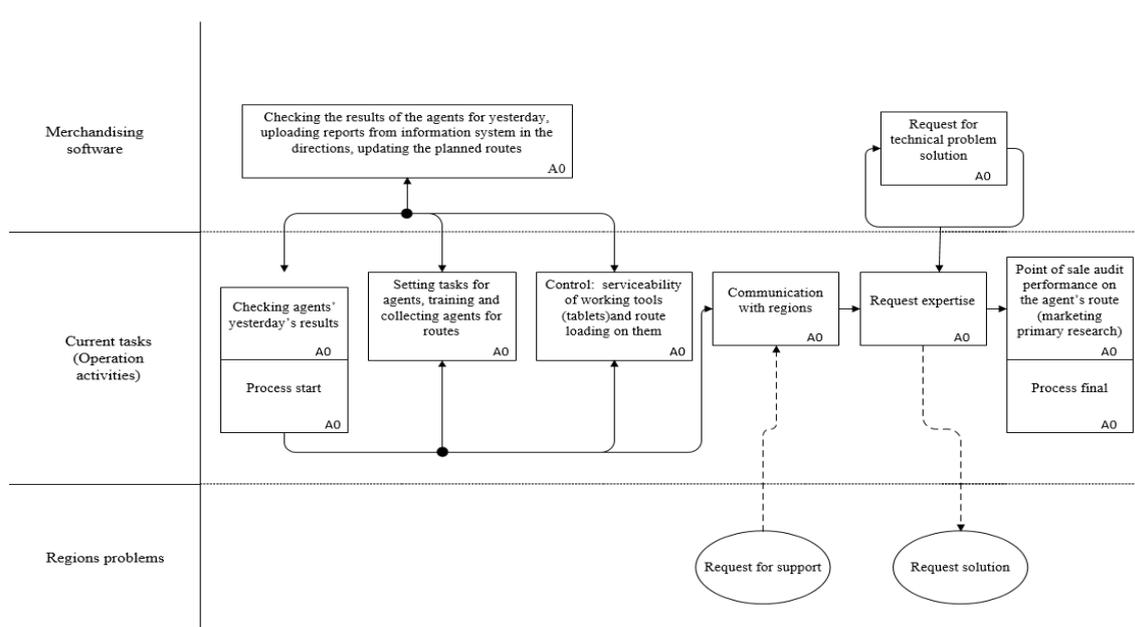
The objectives of the outsourcing marketing activity project through KPI's indicators:

- move from corporate management of the point of sale team to setting goals and monitoring KPI's implementation [15];
- improve visual merchandising quality [16] and penetration of motivational programs share for retail employees by attracting a specialized federal partner;
- increase outlets coverage and the number of visits by attracting a larger point of sale resource of specialists from the outsourcing agency;
- ensure time placement of relevant advertising materials in accordance with merchandising standards in all sales channels;
- carry out planned optimization of headcount [17].

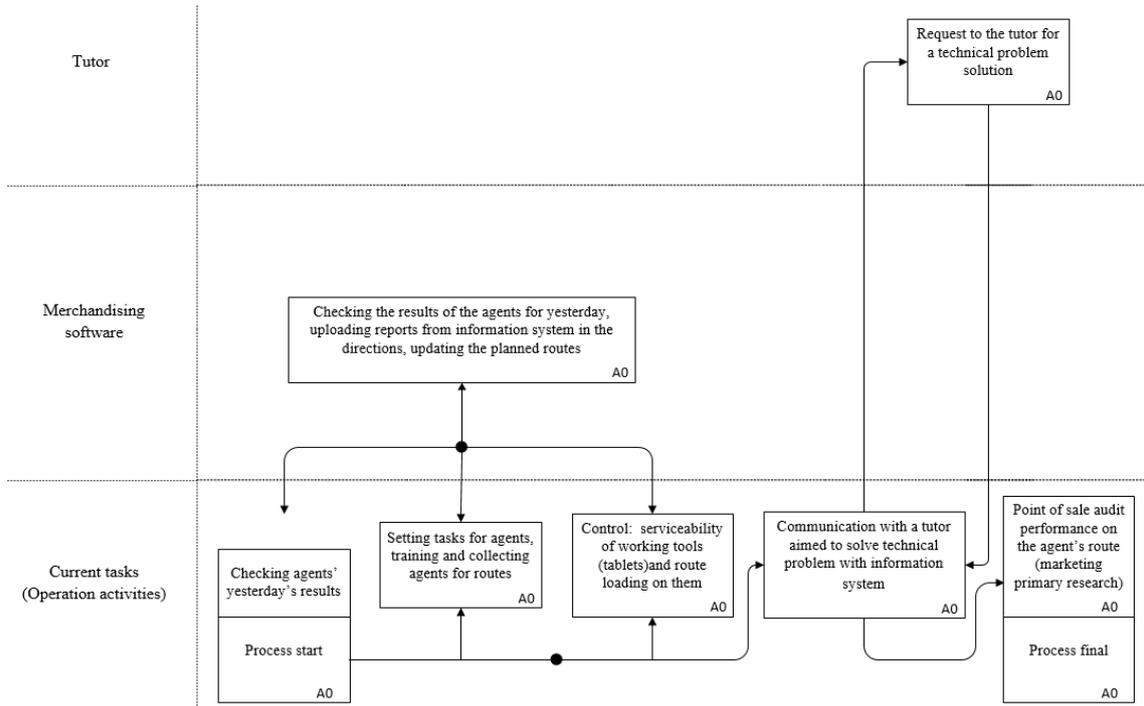
In accordance with a specific project subject, components of comprehensive merchandising service are shown in table 1.

#### 4. Discussion

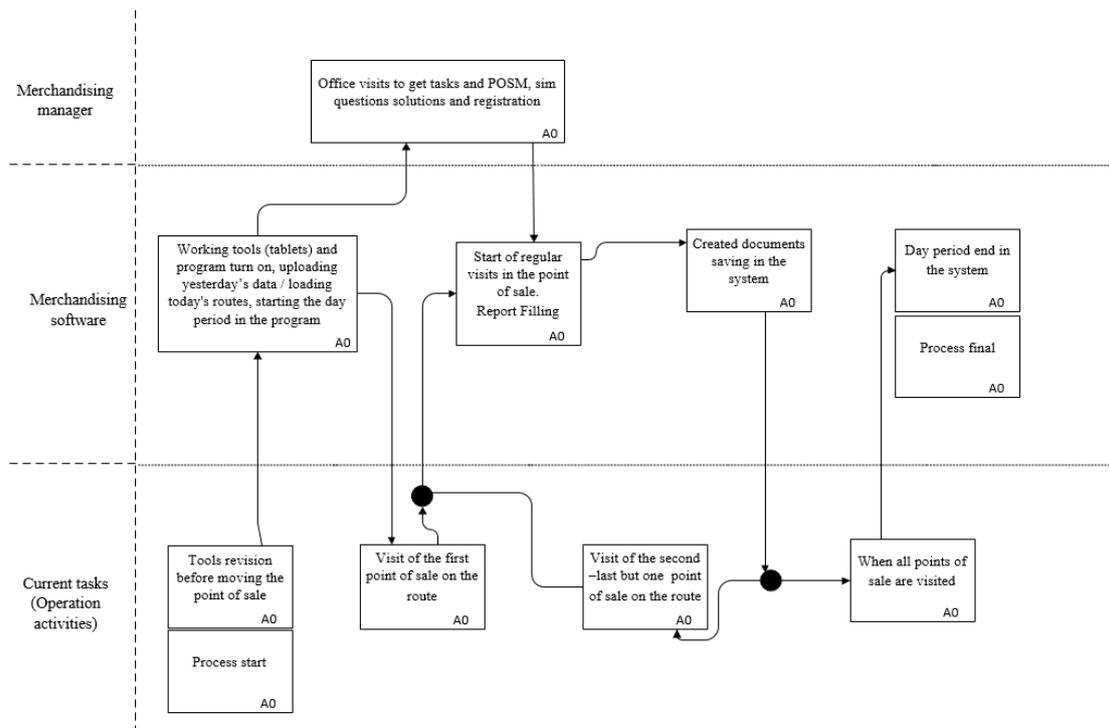
The set tasks for the project within the framework of logistics system, in particular, for trade marketing department, involve experience translation in evaluating other marketing activities as a subject of outsourcing [18]. In this case, it is advisable to draw up maps of work processes in presence of available performers for them and systematize the work within the framework of existing functionality (Fig.1-3).



**Figure 1.** Work process scenarios of a merchandising manager - tutor in a customer company on the Project [Compiled by the author].



**Figure 2.** Merchandising regional manager's work process scenarios in a customer company on the Project [Compiled by the author].



**Figure 3.** Field team's merchandising work process scenarios (sector B2C) of the customer company on the project [Compiled by the author].

The debatable nature of the research results is manifested in the responsibility of members under the contract for logistics processes outsourcing and (or) management of individual logistics flows [19], in connection with which it seems appropriate to reflect project risks and those preventive measures that can be resolved legally in particular, with a clear mechanism for assessment according to KPI's active functions of each member of outsourcing transaction.

Main risks on the project [20]:

- 1) legal - the structure of the direction consists of both full-time employees and outsourced employees. Communication with non-staff employees is direct;
- 2) financial: referral budget is calculated by field managers. Managers have different levels of experience and competencies; regions build logistics of "point of sale staff" based on basic needs for the top cover, often excluding optimization through cross-functional;
- 3) administrative: interaction with field employees occurs with participation of a third person, an outsourcing agency; outsourcer is a federal service provider for different departments;
- 4) information - retail network is multi-format and there are atypical cases for registration. In the absence of introductory personnel, point of sale staff follows least resistance path deciding on standards independently using improvised means.

Planned measures to prevent / reduce risks negative consequences are unification of merchandising which will eliminate all types of risks as well as allow you to build a flexible management process and optimize costs in the regions.

Subject of unification (project):

- 1) financial support (for new regions): central development of budget calculators and forms of logistics cases; central training in budgeting, maintenance and control of cost allocation;
- 2) administrative support (for new regions) - outsourcing through an agency (central support of methodology, budgeting, financing, process management);
- 3) analytical support (for new regions): reporting unit; monthly assessment of the direction: effectiveness of merchandisers team and quality of retail design through channels;
- 4) technical support (for new regions): automated service; tablets and licenses;
- 5) development and control of design standards (for new regions): central updating and training on changes in retail design standards; regular monitoring of compliance with standards through reports in an automated service; regular monitoring of compliance with standards through assessment of design quality according to methodology for calculating implementation of KPI's;
- 6) support and development of competencies (for new regions): development and conduct of working (introductory) briefings; development and conduct of training on budgeting; development and conduct of training on planning tools; holding periodic conferences with questions / answers in operational activities; development and conduct of training on analytical reports; development and conduct of training on logistics cases; development and conduct of training on the direction administration methodology.

## **5. Conclusion**

The considered design task of outsourcing marketing activities of customer will allow, as it seems to the author, to create a "transparent" control system for each component of the integrated merchandising service and thereby ensure process scheme efficiency aimed at optimizing customer's logistics flows [21].

Subsequently, the agency (outsourcer), assuming full responsibility for the state of external trading network of the customer company in the fixed territory under the outsourcing agreement, actually evaluates the work through KPI's by groups [22]:

- merchandising;
- sales staff training and certification;
- implementation of incentive programs for sales staff;
- distribution management;
- collection and analysis of competitor data;

- control over dealers obligations fulfilment (visual merchandising).

In conclusion it is noted that at the project launch stage, a working hypothesis about the formation of KPI's field team work can be formulated based on the following indicators [23]:

- 1) working day length (for point of sale team employees in the region);
- 2) frequency of visits (for point of sale team employees through sales channels);
- 3) ineffective visits (for point of sale team employees at unvisited (closed) outlets on the route);
- 4) number of visits per day (for point of sale team employees by the average number of visits to outlets).

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