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OPTIMA BUSINESS GROUP: LEVERAGING INFORMATION TECHNOLOGY FOR SALESFORCE ENABLEMENT

Ritu Mehta and Debabrata Ghosh wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

It was a morning in June 2014 and Osh Mitra, the chief technology officer (CTO) of Optima Business Group (OBG), was preparing for an important meeting he had to attend later that day in Mumbai, India. He had been assigned the task of discussing what information technology (IT) strategies OBG needed to implement in the coming years.

The last year had been challenging for Mitra and his team. OBG, a consumer packaged goods (CPG) company had managed to successfully implement sales force automation (SFA) in its urban markets and the results had already started showing. But this implementation had not been without pitfalls. On many earlier occasions, the IT division at OBG had not managed to successfully complete IT projects and the team had failed to showcase results to the broader organization. Also, for many IT initiatives, Mitra and his team faced resistance from other functional divisions that typically considered any IT-based change a disruption to their existing processes. Hence, 2013 had been a landmark year for Mitra and his team. However, the task was not complete. SFA had only been implemented in urban markets and competitors were increasingly doing better in rural markets. But the challenges of bringing an IT-based SFA implementation in rural markets were immense. The costs of implementation would be high, it would be difficult to train a poorly educated workforce on adopting SFA, and Internet penetration was low in rural markets, thus leading to a greater need for software and hardware investments.

Mitra and his team could alternatively focus on improving other functional areas such as finance and the supply chain, where competitors were using advanced technologies to help improve their processes and decision-making. But he needed the cooperation of functional heads to start new IT implementations. The board had called for a meeting to discuss and deliberate on the next five-year IT strategy of OBG in light of the turnaround strategy that the firm had implemented last year.

OVERVIEW OF OPTIMA BUSINESS GROUP (OBG)

OBG, headquartered in Mumbai, was first established in 1948 as a CPG company with a regional focus mainly in the state of Maharashtra, India. Over the years, OBG established a strong pan-India presence, primarily due to its sales and distribution capabilities. The company expanded its product portfolio and

served a range of product categories, including personal care, food and beverages, and homecare. Many of the brands offered by the firm were quite popular in the country.

OBG was a publicly listed company and had five manufacturing facilities across India. The company led the Indian market with a combined volume of about 100 million tonnes in sales that amounted to USD2.36 billion in the financial year 2012. OBG had an extensive distribution network that enabled a reach of about five million retail outlets in India. It had close to 3,500 stockists nationally and had a strong distribution network in both urban and rural markets. The company had around 55,000 employees on its payroll and recruited for its management program from the best business schools in Asia-Pacific. Mitra, who had earned his management degree from a top business school in India, had joined OBG in 2006 as the general manager of IT and operations. With his dedication and efforts, he had brought about many IT-related changes in the company, and had quickly risen to the position of CTO.

CONSUMER PACKAGED GOODS SECTOR IN INDIA

The Indian CPG sector had a strong presence of Indian and multinational companies across the entire value chain and intense competition between major players. Frequent purchases of relatively low value were a key feature of CPG, making availability an important factor for success. As a result, companies dealing with CPG products often observed low brand loyalty, and a well-established distribution network was critical for driving sales. Most of the CPG categories in India had low per-capita consumption as well as low penetration levels, and the potential for growth remained high.[1]

Over the past decade, industry reports indicated that the Indian consumer goods sector had been growing at a very healthy rate of 14.8 per cent.[2] This growth was attributed to rising per-capita disposable incomes and the expansion of organized retail formats in the country. It was projected that the average household income in India would triple over the next twenty years and that India would be the fifth-largest consumer market in the world. Interestingly, the bottom of the pyramid (BoP) market in India was assumed to be USD1.21 trillion in purchasing power parity terms, and offered a huge opportunity for CPG companies in India. A major part of the BoP population was located in rural India, and more than 80 per cent of CPG products had posted faster growth in rural markets as compared to urban ones in 2011.[3] The potential for further growth in rural markets fostered the need for extensive distribution networks and innovative product designs to cater to these markets.

SALES AND DISTRIBUTION AT OBG

The rise of OBG as a major player in the consumer goods market in India was largely attributed to its sales and distribution team. Mike Roland, the director of the sales and distribution team at OBG, had won several accolades in the past in the company thanks to the performance of the sales and distribution team.

OBG catered to the market with its unique sales and distribution system and followed two different channels to cater to the urban and rural markets. The two systems are shown in Exhibits 1 and 2.

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[1] "Indian Consumer Durables and FMCG Industry Analysis," India Brand Equity Foundation, www.ibef.org/industry/fmcg-presentation, accessed December 5, 2014.

[2] Janat Shah and Debabrata Ghosh, "Decoding Supply Chain Leadership in India" in Çağrı Haksöz, Sridhar Seshadri and Ananth V. Iyer (eds.), Managing Supply Chains on the Silk Road, CRC Press Taylor and Francis Group, Florida, 2011, pp. 105–118.

[3] "FMCG," India Brand Equity Foundation, March 2014, www.ibef.org/download/FMCG-March-2014.pdf, accessed March 10, 2015.

In the urban markets, OBG moved its goods through carrying and forwarding (C&F) agents. OBG had 35 such agents nationally. These C&F agents played a very important role in the supply chain, where they received goods from the manufacturer, provided storage facilities and transferred goods to requisite destinations. With multiple states in India having a number of state taxes and documentation requirements at the state borders, C&F agents handled documentation and managed the transfer of goods through these borders. They also supplied the products to modern retail outlets that directly sold to consumers. Additionally, C&F agents supplied products to stockists, who supplied wholesalers and retailers. The stockists were independent owners. They were responsible for storage and the distribution of goods to retail stores. They were also central points for inventory control and cash management for the goods sold. Stockists handled product returns from retailers. Through stockists and the sales team, OBG maintained its penetration in the urban markets.

In rural markets, OBG used a system of local stockists wherein an additional layer of stockists was added to increase distribution intensity. Here, C&F agents provided stocks to super-stockists, who further stocked goods and distributed products to local stockists. The local stockists had deeper penetration in rural areas and distributed products to wholesalers and retailers in the rural market. This structure enabled the efficient servicing of rural markets and increased access to small-scale retailers and wholesalers.

The distribution system could not be successful without the presence of a good sales force structure. OBG's sales force structure is depicted in Exhibit 3. The territory sales incharge was the lowest person in the hierarchy of the sales system and oversaw a group of stockists in a region. His job was to visit these stockists frequently, build relationships and ensure that monthly targets of OBG were met. Stockists individually employed dedicated salespersons—stockist salespersons (SS) — for OBG in proportion to the business volumes and value they dealt with. SS were assigned a pre-defined route of outlets, called a "beat," which they needed to cover every day. Beats were classified as weekly or fortnightly according to the scale of business and order frequency of outlets on the beat. A SS would follow his beat every day and take orders from all outlets on his beat. He would write the orders down on his notepad and place the orders with the stockists in the evening. Stockists would also employ dedicated delivery persons and drivers for the delivery of goods. They would sort the goods as per outlet orders and deliver them to the respective outlets the next day. A stockist would take note of his inventory once a week and place orders with the C&F agent.

PRE-2013: THE PROBLEM OF SALES AND DISTRIBUTION

In spite of robust sales force performance and deep inroads in the rural and urban markets of India, problems had cropped up in the sales and distribution processes of OBG over the last few years. Many of the activities of SS were manual and time-consuming and the time and effort of the sales force was expended in non-productive activities. Order-taking was manual. Also, errors in order-taking and delivery were a common occurrence. OBG's sales officers often complained of the salespersons not being punctual in their duties and of not covering all the assigned outlets on their beats. On the other hand, stockists were unhappy with the cumbersome processes in place and quite a few had quit OBG. The main reason cited for such an action was the lack of transparency in OBG's claims settlements.

OBG ran several schemes to incentivize its stockists, wherein stockists offered discounts to retailers over their purchase prices. The stockists later claimed the applicable discounted amount from the firm on a monthly or quarterly basis. These schemes varied a great deal across months and stock-keeping units (SKUs). Stockists manually managed the invoices of the claims to be reimbursed and received their payments in 30–40 days of the submission of invoices. Additional delays in this process affected the

working capital of stockists. They were not sure of the exact reimbursements that would be applicable due to the multitude of SKUs and the variance in these schemes. Hence, the majority of them thought the claims were unreasonable and felt cheated on several occasions. Due to this lack of transparency, a lot of OBG's stockists had resigned and finding new stockists in major business areas was becoming an ordeal for the company. The on-the-ground sales force was not educated in a timely manner on these schemes and hence the company did not get to see the benefit of its carefully designed schemes. OBG's schemes were a mix of quantity purchase schemes (QPS), value purchase schemes (VPS), temporary price reduction (TPR) and bundled price reduction (BPR) (see Exhibit 4).

- QPS: Discount on the quantities of goods purchased.
- VPS: Discount on the value of goods purchased.
- TPR: Temporary discount on certain SKUs.
- BPR: Discount on a particular group of SKUs if bought together.

Further, OBG did not have an accurate idea of customer demand for its products and often maintained higher inventories both in its warehouses and at distributor points across the country.

By early 2013, the management took cognizance of the problems at hand and conducted a stockist satisfaction survey across all its stockists. The survey results confirmed the management's fear of the problems in OBG's sales and distribution system. 90 per cent of the stockists were dissatisfied with OBG's practices.

THE SALES FORCE TRANSFORMATION JOURNEY

In mid-2013, to tackle these growing issues in the organization, OBG formed a taskforce committee, which was comprised of Mitra and all business heads. After two weeks of extensive discussions, the taskforce had the following observations to make:

- A plethora of manual and non-productive steps in the sales system had made the whole process time-consuming and prone to errors. (*From order-taking at the stores to order communication and delivery, it was a manual process. Further, invoice generation and submission and the recovery of dues from OBG were manual tasks. The communication of schemes and policies was adhoc and manual in nature*.)
- Consequently, the morale of OBG's stockists was very low.
- OBG's sales were being lost to its competitors as stockists changed sides.
- There was an immediate need for better monitoring and simplified processes for effective sales improvement.

The taskforce understood the gravity of the situation and decided to undertake a major revamp of its sales and distribution system. The company decided to leverage IT to do this. OBG's IT team, headed by Mitra, took responsibility for this transformation journey.

OBG hired TechSys, a global technology and consulting firm, to implement and leverage IT-enabled services in its organization. TechSys was assigned the task of implementing sales force automation across OBG's SS force to meet the ever-increasing information needs and standardize business practices. TechSys had to deploy these applications, train the sales team in using the application and also provide post-implementation support.

However, the transformation was not as easy as the management thought it would be. The sales force of OBG was not happy with the decision and felt that it would further lose control of the sales processes. Roland reminded the OBG management that disruption in the sales process could directly affect OBG's revenues. Increased transparency in the sales and distribution system also meant tighter monitoring of all personnel and hence there was a lot of resistance in the organization. Additionally, some department heads were apprehensive and doubted whether there would be any gain from this exercise. OBG had attempted a similar exercise in the early 2000s for a big-bang enterprise system implementation[4] and had failed. Inspite of this resistance, OBG's top management still decided to go ahead with its decision to implement IT in the sales and distribution system.

Mitra knew very well that the failure of IT implementation in the sales and distribution function and the inability to showcase marked changes would deal a great blow to any future technology-enablement initiatives in the organization. He had also learnt his lessons from the big-bang enterprise system implementation failure in the past and was very cautious about the implementation approach this time. Big-bang implementation in the past had led to organizational process disruption. At the time, the enterprise application implementation required the cooperation of all department heads and their teams. All departments were supposed to undergo a change in their processes and ways of working. Such a mammoth change required a coordinated approach from the entire organization within a specific time period. Needless to say, several departments resisted this change. As a result, the project was shelved within a few months of initiation. Mitra required the maturity and support of the IT vendor this time to get the project successfully implemented. He also needed the confidence of the sales and distribution team and its head to help him bring changes through IT implementation.

TechSys, being a trusted player in the IT-enabled service implementation and consulting space, had won the confidence of Mitra and his team. During the IT vendor-selection process, TechSys had demonstrated sufficient past experience of implementing such solutions with competitors of OBG in the market and Mitra was hoping that TechSys would also bring along the global experience of its clients in this project. Mitra and his team knew that IT implementation alone would not serve to improve the sales and distribution function. It also had to be supported by marked changes in the sales and distribution processes.

To begin with, Mitra and his team had a meeting with Roland and his sales team. In this meeting, it was decided that representatives from each zone of the country (primarily from the urban markets), a few selected area sales managers, and two territory sales incharges would have detailed meetings with TechSys consultants for three weeks. Simultaneously, TechSys consultants would visit selected distribution centres of OBG and speak with stockists and OBG's salespersons and document all the current practices and processes. This would be followed by TechSys suggesting ways to improve OBG's current practices and simultaneously working on an IT solution to customize the application according to OBG's needs. The consulting and software development phase was slated for a period of four months, while the implementation of the application and its test run, audit, acceptance and hand-holding phases would run for a period of another three months. It was decided that the implementation would be carried out in the urban markets primarily, owing to better Internet penetration and supposed ease of implementation and maintenance.

In what followed, intense discussions between TechSys consultants and OBG managers took place. All processes were documented in detail. The TechSys team also collected all requirements from salespersons and stockists. Initially, there was some hesitancy from the salesforce during these discussions. In several

[4] Big-bang implementation is the method of system implementation that is conducted in a very short period of time such that the entire organization adapts to the new system quickly.

of the meetings, Mitra participated along with Roland to ensure the support of the salesforce. These initial efforts worked. TechSys started work on the application development soon after the requirements were gathered. Through the next few months, the application was developed and tested with a handful of salespersons to get their feedback.

TechSys came up with several suggestions for usage of the application as well as improvement in processes. One such suggestion was to capture two types of data from the retailer —first, the order placed by the retailer and second, the order delivered to the retailer. It was suggested that a record of such data, once relayed back to OBG, would give it a correct picture of the actual demand for its products in the country and how much of it OBG was able to fulfill. Another suggestion was to automate price points in the handheld device so that the application could calculate in real-time the revenues that the salesperson was generating through his beat each day. In another suggestion, it was advised that the price points in the application would calculate the applicable discounts on a real-time basis so that salespersons did not have to manually record the plethora of schemes running at any point in time. Several such suggestions got approvals from Roland and his team.

Over the next few months, the application was implemented across the four zones of the country as a pilot with a few salespersons. Also, major stockists in the country were connected to OBG's central database via an Internet-based network. In addition, a team from TechSys visited the stockists and salespersons and conducted a brief training exercise to help them adopt the new system in the urban markets. Within weeks, it was observed that the application enabled the stockists to place orders, generate reports, track dispatches, share information and monitor budgets with much ease. Roland met Mitra soon after this and gave him his approval to complete the implementation across all stockists and salespersons in the urban markets of the country. The project went live within weeks after its first pilot. The entire implementation of the project involved various stages, as mentioned in Exhibit 5.

THE SALES FORCE ENABLEMENT ADVANTAGES

Implementation of SFA helped reduce time consuming manual steps of the SS. The steps followed by a SS post SFA implementation were:

1. Before a SS visited retailers, he checked on his handheld device the previous sales orders given by the retailers and found out whether there were any outstanding dues or not.
2. The SS then visited the retailers and checked the physical inventory available manually at the retailers' end.
3. The SS used his handheld device to provide the information about all the current schemes on the products to the retailers.
4. The SS took the stock orders from the retailers and logged them in his device.
5. On the completion of his beat for the day, the SS synced his handheld with the terminal at the stockist point. The orders were placed with the C&F agents online and inventory feedback was relayed.
6. All the bills and orders were stored in a central server that was visible to the claims settlement team of OBG and the stockists.

Post-implementation, the average time to service a store was reduced from 15 minutes to 10 minutes and this helped the SS to better utilize his time and service all the retailers in his beat. The handheld devices reduced the non-productive steps of order-taking and manual bill generation. The central server also had the count of inventory present with stockists, which helped OBG manage its inventory more efficiently. Since the handheld devices had all the data about the SKUs manufactured by the company and the

associated trade schemes, they reduced a lot of billing errors, reduced the claims settlement time and improved the trust of stockists in OBG. Any errors during the claims settlement process were resolved electronically. To monitor the working of a SS, the software was designed in a manner such that the SS had to click a photograph of a store before the application allowed him to book an order for that particular outlet. These photographs were stored on the central server and served a dual purpose. They enabled the territory sales incharge to monitor the activities of the SS and also to inspect the points of purchase and other product placements of the firm at the store.

All these changes in the sales and distribution system helped OBG regain its lost ground towards the end of 2013 as sales picked up. There was an initial concern at OBG that IT expenses towards sales force transformation of such a large scale might not translate into any advantage anytime soon. However, as the financial results showed, IT spending on SFA implementation increased sales and net profits (see Exhibits 6 and 7).

The stockists were markedly satisfied and the latest survey conducted after the transformation showed a significant improvement in their satisfaction level (see Exhibit 8).

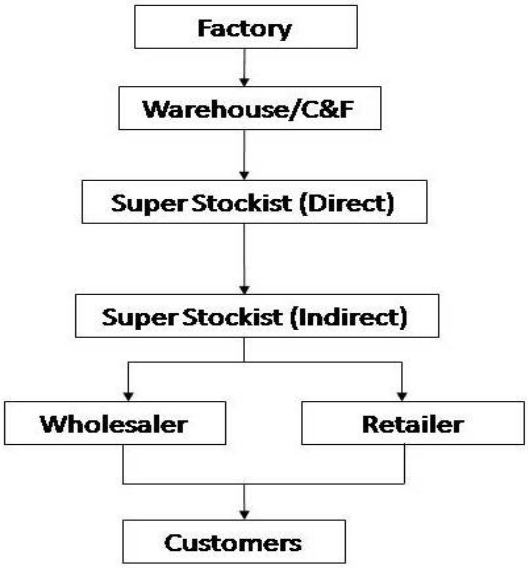
THE TASK AHEAD

Today's board meeting was summoned to discuss the next five-year IT strategy of the organization. Mitra was wondering about the ideal strategy for leveraging IT in OBG. While OBG over the last year had managed to strengthen its sales force, several competitors of OBG had made successful large-scale IT investments to fine-tune their other functions like finance, human resource systems, transportation systems and vendor management systems. Mitra could take up these issues, but he also required support from other department heads.

Additionally, though the sales force of OBG was largely IT-enabled in the urban areas, a lot more needed to be done in the rural markets. Other CPG companies were fast adopting SFA in rural markets and few had failed in their endeavours. About 35 per cent of OBG's sales came from rural areas. The majority of these sales came from rural markets with populations greater than 40,000. In the last couple of years, OBG had introduced local stockists to cater to dispersed rural demand and build distribution for higher-margin products. The potential differed from one rural area to another depending on its population and per-capita income. Mitra was faced with many questions: Did it make sense to implement SFA in rural markets, given the low Internet penetration in those regions? Should OBG upgrade all the rural stockists to SFA solutions or should it adopt a selective approach? Another challenge was how to sell the idea to the rural stockists and train their salesmen to use the handheld devices. Out of 3,500 OBG stockists, 1,500 served the rural markets. Mitra estimated that if each of these stockists had on average 15 salespersons working for them, it meant training a good number of salespersons. Further, assigning a handheld to each salesperson also required significant investments —three to four times what was invested in urban markets (urban market investments are shown in Exhibit 7). Mitra wondered whether, if SFA implementation in rural markets led to an increase of 5 to 7 per cent of rural net sales, he would be able to justify the costs of implementation to the board.

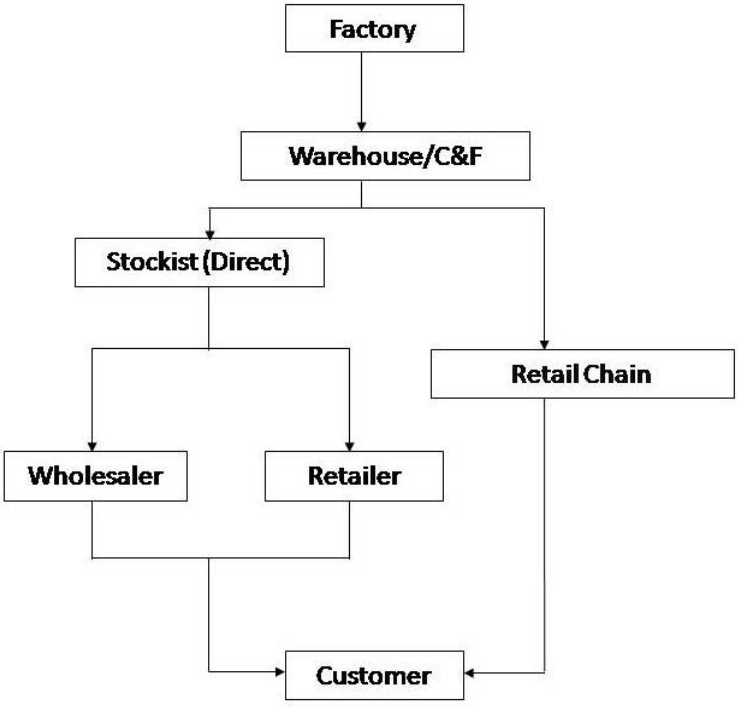
Several of OBG's competitors had partnered with stockists to share the initial IT setup costs while providing them with other sales incentives in order to reduce the costs of sales force handhelds. Could Mitra suggest the adoption of such a model? Or would it be too farfetched for OBG's sales and distribution team?

EXHIBIT 1: RURAL DISTRIBUTION STRUCTURE



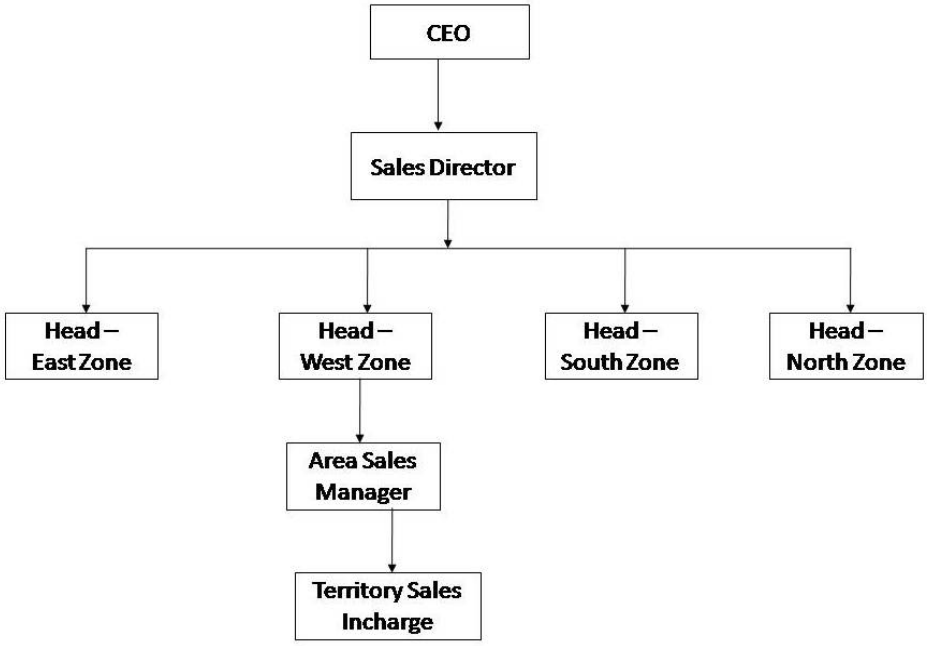
Source: Created by case authors.

EXHIBIT 2: URBAN DISTRIBUTION STRUCTURE



Source: Created by case authors.

EXHIBIT 3: SALES FORCE STRUCTURE



Source: Created by case authors.

EXHIBIT 4: ILLUSTRATIVE SECONDARY SCHEME STRUCTURES

Schemes on Toothpaste	• 10% off on purchase of USD100 or above of toothpaste • 12%off on purchase of USD150 or above of toothpaste • 15% off on purchase of USD200 or above of toothpaste • 15% off on purchase of USD250 or above of toothpaste, soap and cream
Schemes on Soap	• 8% off on purchase of USD100 or above of soap • 10% off on purchase of USD150 or above of soap • 13% off on purchase of USD200 or above of soap • 15% off on purchase of USD250 or above of toothpaste, soap and cream
Schemes on Cream	• 6% off on purchase of 2–4 cases of cream • 8% off on purchase of 5–8 cases of cream • 10% off on purchase of 9–12 cases of cream • 15% off on purchase of USD250 or above of toothpaste, soap and cream

Source: Created by case authors.

EXHIBIT 5: PROJECT IMPLEMENTATION PHASES

Project phase	Stake-holders	Timeline (weeks)																														
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
Process design and measurement	TechSys/ OBG			◄	►																											
Requirement gathering and analysis	TechSys/ OBG			◄	►																											
Field trip	TechSys/ OBG		◄	►																												
High-level design of the application	TechSys						◄	►																								
Detailed design of the application	TechSys									◄	►																					
Application development	TechSys												◄	►																		
Application testing and redesign	TechSys															◄	►															
Application pilot in selected stockists and salespersons	TechSys/ OBG																		◄	►												
Training	TechSys/ OBG																		◄	►												
Audit and quality assurance	TechSys/ OBG																					◄	►									
Overall application implementation	TechSys																							◄	►							
Training	TechSys/ OBG																							◄	►							
Audit and quality assurance	TechSys/ OBG																									◄	►					
System support and handover	TechSys																													◄	►	

Source: Estimated by case authors.

EXHIBIT 6: SELECTED FINANCIALS FOR OBG

USD (in millions)	2012	2013
Net sales	2,361	2,684
Cost of sales	1,134	1,236
Operating expenses	920	932
Net income	307	516

Source: Estimated by case authors.

EXHIBIT 7: SUMMARY OF SALESFORCE AUTOMATION COSTS

	USD (in millions)
SFA licensing cost	1.45
TechSys project development and consulting cost	0.75
On-site IT implementation and support	1
Handheld costs	1

Source: Estimated by case authors.

EXHIBIT 8: IMPROVEMENT IN STOCKIST SATISFACTION SURVEY (FEBRUARY 2014 VERSUS FEBRUARY 2013)

	%
Products delivered when needed	30
Contact frequency of company staff	24
Training of stockist salesmen	23
Company's problem-handling	25
Handling of product quality complaints	22
Order processing	33
Communication about schemes and promotions	22
Product returns	22
Claims settlement	30
On-time product delivery	20
Overall satisfaction	33

Source: Estimated by case authors.