



**WHITE PAPER SERIES**  
**ACHIEVING CHANNEL EXCELLENCE**

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***HOW TO AUDIT YOUR  
RETAIL SALES CHANNELS***

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## **WHY AUDIT YOUR RETAIL SALES CHANNELS?**

*The channel audit is your retail sales channel barometer. It functions as a “documented” record of all your retail sales channels processes, operations, and technical assets. Once the audit is completed, it can serve as a baseline for process and operation improvements that can have an enormous impact on the profitability of your business—in terms of increased sales, lower expenses due to operational efficiencies, and a broader market share. The bottom line? The channel audit highlights what you do well and areas where you can improve. By focusing on those areas of improvement, you gain a significant advantage over your competitors.*

## **THE CHANNEL AUDIT: A FIRST STEP TOWARDS CHANNEL EXCELLENCE**

Do you know how your retail sales channels are doing? Are your channel processes clearly defined? Does your channel team work from a well-defined set of rules to determine your most successful retail partners? For most manufacturers, these questions represent volumes of data, significant number crunching, as well as process definition and management across many operational teams with different goals and objectives. In order to answer these questions, you must first have a clear understanding of the retail channel operation processes and capabilities you have in place today. This is why an up-to-date channel audit is so important.

A channel audit can serve as your blueprint to all the processes, operations, and technical assets you are employing in your retail sales channels. Specifically, a channel audit will tell you:

- What your retail sales operations capabilities are.
- What your retail channel business processes look like.
- What technical assets you have to support your retail channel sales.
- How you can determine whether your retail sales channel strategy and execution is successful.

The channel audit involves people, processes, and systems. Before beginning an audit, the appropriate project team must be assembled. This team will document all your retail sales processes as well as review what your information systems are capable of providing.

This white paper shows you how to perform your own internal audit. At the end of the audit process, you should have a thorough understanding of where you are today and the gaps you have in your retail sales channel systems and processes that will need to be closed.

## **SELECTING THE PROJECT TEAM**

To begin the audit process, you need to identify the project team. The first team member to identify is the sponsor or champion. The sponsor is typically an executive who recognizes the need and benefits of completing the channel audit and is able to ensure cross-functional participation and resource availability. Next, fill out the project team. The team doesn't need to be large, but it must include representatives from all the functional groups within your channel sales organization. These stakeholders should have a vested interest in ensuring that their respective processes are accurate, efficient, and effective. Take some time to consider all the groups that should be included—certain groups will span different organizational

functions, but it's important that you include them because without them you'll only have a partial understanding of your channel operations and processes. Groups to consider include:

- Sales
- Marketing
- Fulfillment and Operations
- Information Technology (IT)
- Sales Operations
- Analysis and Market Research
- Finance

The project team should be made up of cross-functional and cross-departmental members. However, other than the project leader, the other team members do not need to be dedicated full-time to the project, but they do need to be available and committed resources to the audit process as each of them will be responsible for documenting how their functions participate in your retail sales channel operations. Use the following table to help identify appropriate team members:

<b><u>Function</u></b>	<b><u>Processes/Responsibilities</u></b>	<b><u>Team Member(s)</u></b>
Sponsor/Stakeholder	<ul style="list-style-type: none"> <li>▪ Ownership of audit</li> <li>▪ Enable cross-functional participation</li> </ul>	
Sales	<ul style="list-style-type: none"> <li>▪ Field Sales/Site Visits</li> <li>▪ Assortment Recommendations</li> </ul>	
Marketing	<ul style="list-style-type: none"> <li>▪ In Store Advertising</li> <li>▪ Market Development Funds/ Co-op</li> </ul>	
Fulfillment and Operations	<ul style="list-style-type: none"> <li>▪ Retail Replenishment</li> <li>▪ Shipping and Scheduling</li> </ul>	
IT	<ul style="list-style-type: none"> <li>▪ EDI and XML Communication</li> <li>▪ Reporting and Data Analysis Systems</li> </ul>	
Sales Operations	<ul style="list-style-type: none"> <li>▪ MDF/Co-op Reconciliation</li> <li>▪ Retail Replenishment</li> </ul>	
Analysis and Market Research	<ul style="list-style-type: none"> <li>▪ POS Analysis</li> <li>▪ Customer Demographics</li> <li>▪ Inventory Position Analysis</li> <li>▪ Partner Performance Analysis, Metrics, and Key Performance Indicators</li> </ul>	
Finance	<ul style="list-style-type: none"> <li>▪ Purchase Order Management</li> <li>▪ Invoicing and Reconciliation</li> </ul>	

## ANALYZING YOUR BUSINESS PROCESSES

Once the appropriate team members are identified, most teams will tend to focus on technology first. This is in order to understand what systems are in place today and what systems are needed to provide greater insight into channel performance. But keep in mind that technology is just a tool that supports your business processes. If your business processes are broken or non-existent, technology can't help you fix that. So instead of looking at your technology issues, begin your audit project by defining your existing business processes. This will ensure that you have the proper understanding of how your business operates and what changes you need to make in order to efficiently run your retail channel business. Once you understand where you are in terms of your operations and processes, you can then identify the necessary business changes you will need to make as well as assess what technology changes must also be made to support your retail sales channels.

### STANDARDIZE YOUR PROCESS DEFINITIONS

In order to define and compare processes it's important that you follow a standard template for information. That way, you can see where processes break down or where there are operational gaps. A standardized format also ensures that all project team members report the same types of information. Each one of your process definitions should include the following elements:

- **Process Name.** A simple, easy to recognize name for the process.
- **Description.** Explains the purpose of the business process.
- **Participants.** Lists the participants in the business process and their responsibilities.
- **Triggers.** Explains the events or dates that start the business process.
- **Inputs.** Lists the inputs to the business process, including reports and metrics, and the provider of the input.
- **Outputs.** Lists the outputs from the business process and the recipient of the output.
- **Standard Process Execution.** Lists the activities that occur in support of this process. Includes decision points and the path for the standard or common decision. Alternative decisions are documented in the Alternative Process Executions section. A flow chart is often helpful in mapping out the flow of the business process. Note where each participant is involved with the process, where inputs are used, and where outputs are produced.
- **Alternative Process Execution.** Lists alternative process flows for allowable deviations from the Standard Process Execution. Alternative flows include exception conditions and uncommon or alternative decision point responses.

A standard template to use is available in the appendix.

Depending on the complexity of your operations, it may be easier to break processes into sub-processes which are referenced by their parent processes. For example, a business process to Approve Market Development Fund Requests may include the following sub-processes:

- Validate Availability of Allocated Budget
- Verify Adequate ROI for Previous Expenditures

## IDENTIFY YOUR MAJOR BUSINESS PROCESSES

To begin your channel audit, identify all your retail sales channel business processes. These processes can include, but are not limited to, the following:

- Purchase Order Management and Fulfillment
- Replenishment Scheduling
- Sell-In, Sell-Thru, and Channel Inventory Analysis
- Partner Performance Management
- Market Development Funds/Co-op Funds

Keep in mind that it may be easier to break processes into sub-processes which are referenced by their parent processes. As you identify your major processes, you may also want to flag and note what sub-processes are involved.

After identifying the processes and relevant sub-processes, you can begin documenting the processes. Documenting the processes ensures that you have the proper understanding of the various tasks, resource needs, and dependencies that go into managing your daily retail sales channel operations.

### A PROCESS DEFINITION EXAMPLE

Let's use Marketing Funds Management as an example of how to create a process definition. Marketing Funds, which can include market development funds, co-op dollars, in-store displays and mailers, and scan-back programs, are an integral part of the manufacturer/retailer relationship and one that is often poorly understood and tracked. Marketing Funds Management is a broad process that incorporates a number of different activities that range from, allocating budget, approving expenditures, and reconciling invoices, to analyzing the return on investment. Each one of these activities is a sub-process. For example, Allocate Budget, Approve Expenditures, Reconcile Invoices, and Analyze Return on Investment could all be sub-processes of the Marketing Funds Management process. To begin, let's use the Allocate Budget sub-process as an example.

Allocating the budget for marketing programs may include several groups within your retail sales channel organization: Sales, Sales Operations, Marketing, Finance, and possibly others depending on your process. If you are familiar with your process, map out the workflow and then meet with the respective team members to verify the accuracy and determine the necessary inputs and outputs. If you aren't familiar with the process, you may need to set up a brain-storming session with a few key people to "white board" the workflow and identify additional resources to follow up with. After verifying the workflow and defining the necessary inputs and outputs, your Allocate Budget may look something like the following process definition. (**Note:** This is a simple example. Depending on the size and scope of your organization, your processes may be more complex.)

<b>Process Name</b>	Allocate Marketing Funds Budget
<b>Description</b>	This process determines the budgets that can be spent on marketing activities with retail partners. The process is executed at the end of the fiscal year for the following fiscal year.
<b>Participants</b>	<ol style="list-style-type: none"><li>1. <b>Sales</b> – Responsible for the overall process, gathers budget needs and determines final budget by partner.</li><li>2. <b>Sales Operations</b> – Responsible for providing prior market fund performance</li></ol>

	<p>and sales data to support the allocation of budget among retail partners.</p> <ol style="list-style-type: none"> <li><b>Marketing</b> – Responsible for estimating costs associated with planned marketing activities.</li> <li><b>Finance</b> – Responsible for providing initial budget guidelines and approving final budget.</li> <li><b>Retail Partners</b> – Responsible for identifying seasonal and recurring marketing activities and slotting fees.</li> </ol>
<b>Triggers</b>	This process occurs during the annual budget process beginning in late Q3 for the following year.
<b>Inputs</b>	<ol style="list-style-type: none"> <li>Prior year POS data – Sales Operations</li> <li>Prior year marketing budgets and return on investment – Sales Operations</li> </ol>
<b>Outputs</b>	Budgets allocated by partner (Sales, Sales Operations)
<b>Standard Process Execution</b>	<ol style="list-style-type: none"> <li>Sales receives a request to provide budgets for the coming fiscal year.</li> <li>Sales identifies the retail partners that will need marketing funds for mailers, coupons, displays, slotting fees, etc.</li> <li>Sales gathers budget needs and guidelines from retail partners, marketing, and finance.</li> <li>Sales Operations provides prior year sales results, marketing expenses, and ROI.</li> <li>Based on the needs and past performance data, Sales allocates budgets across the retail partners.</li> <li>Finance approves the finalized budgets.</li> <li>Sales distributes finalized budgets to Account Managers and Sales Operations.</li> </ol>
<b>Standard Process Flowchart</b>	<p>The following flowchart illustrates the process described in the standard process execution for the Allocate Budget sub-process.</p> <pre> graph TD     subgraph Sales         A[Receive Budget Request Notification] --&gt; B[Identify Retail Partners Needing Marketing Funds]         B --&gt; C[Gather Budget Needs]         C --&gt; D[Finalize Budgets]         D --&gt; E[Budgets Allocated by Retail Partner]     end     subgraph Sales_Operations         F[/Prior POS Data/] --&gt; D         G[/Prior Marketing Funds and ROI/] --&gt; D     end     subgraph Marketing         H[Provide Budget Needs] --&gt; C     end     subgraph Finance         I[Provide Budget Guidelines] --&gt; C         J[Approve Budgets] --&gt; D     end     subgraph Retail_Partner         K[Provide Budget Needs] --&gt; C     end     C --&gt; D     D --&gt; J     J --&gt; E     E -.-&gt; F1[Budgets Allocated by Retail Partner]   </pre>

As you can see from the flowchart, each participating group is reflected horizontally. Some basic symbols are used within the flowchart: rectangular boxes indicate tasks, slanted boxes indicate data or files, and boxes with a wavy bottom indicate documents. If you do not have a

flowcharting program, you may want to consider Microsoft Visio as it is an easy to use tool for drawing flowcharts and contains all the necessary symbols.

Keep in mind that processes should be based on facts, not assumptions. Whenever you have an assumption, double-check it to make sure it is accurate and then state it as a fact. Unfounded assumptions will inevitably lead to errors in the process.

### **IMPROVE YOUR EXISTING PROCESSES**

After defining your processes, you'll probably see a number of places where you ask yourself the following:

- Does that still happen?
- Why do we do X instead of Y?
- Does activity Z ever actually happen? Should it?
- Who is actually responsible for this step?

This is the point where business process definition helps you to achieve channel excellence because you now have the foundation upon which you can improve your existing processes. Using your existing processes and the “Why do we...?” questions that come up, identify the following:

- Where can bottlenecks be eliminated?
- Where do task responsibilities need to be clarified?
- What duplicate steps can be eliminated?
- What appropriate measures and analytics can be developed to determine how effective this process is?

**Measure for Success.** Keep in mind that measures are to processes as traffic cops are to roads. To ensure that your processes are followed appropriately, you need to measure them. Measures such as an Unreconciled Invoices Report can help you determine how effectively and timely upstream information is being captured and transmitted to the reconciliation step. Or an MDF ROI Report can help you evaluate how successful your retailers are at transforming marketing dollars into increased sales. With these kinds of measures in place, you will be well on your way to channel excellence.

**Inputs and Outputs Can Help You Evaluate System Capabilities.** Defining the business processes you use to manage your retail sales channel will often highlight Inputs and Outputs that you don't currently produce or have access to. This can help you to evaluate your information system capabilities—are you able to produce the necessary inputs and outputs? Additionally, inputs and outputs can highlight the information you need from your retail partners so that you can improve your relationship with them. Remember, collaboration involves the sharing of information to achieve mutual benefit. By proposing mutually realizable benefits to your retail partners, they will often open up and create a collaborative relationship with you.

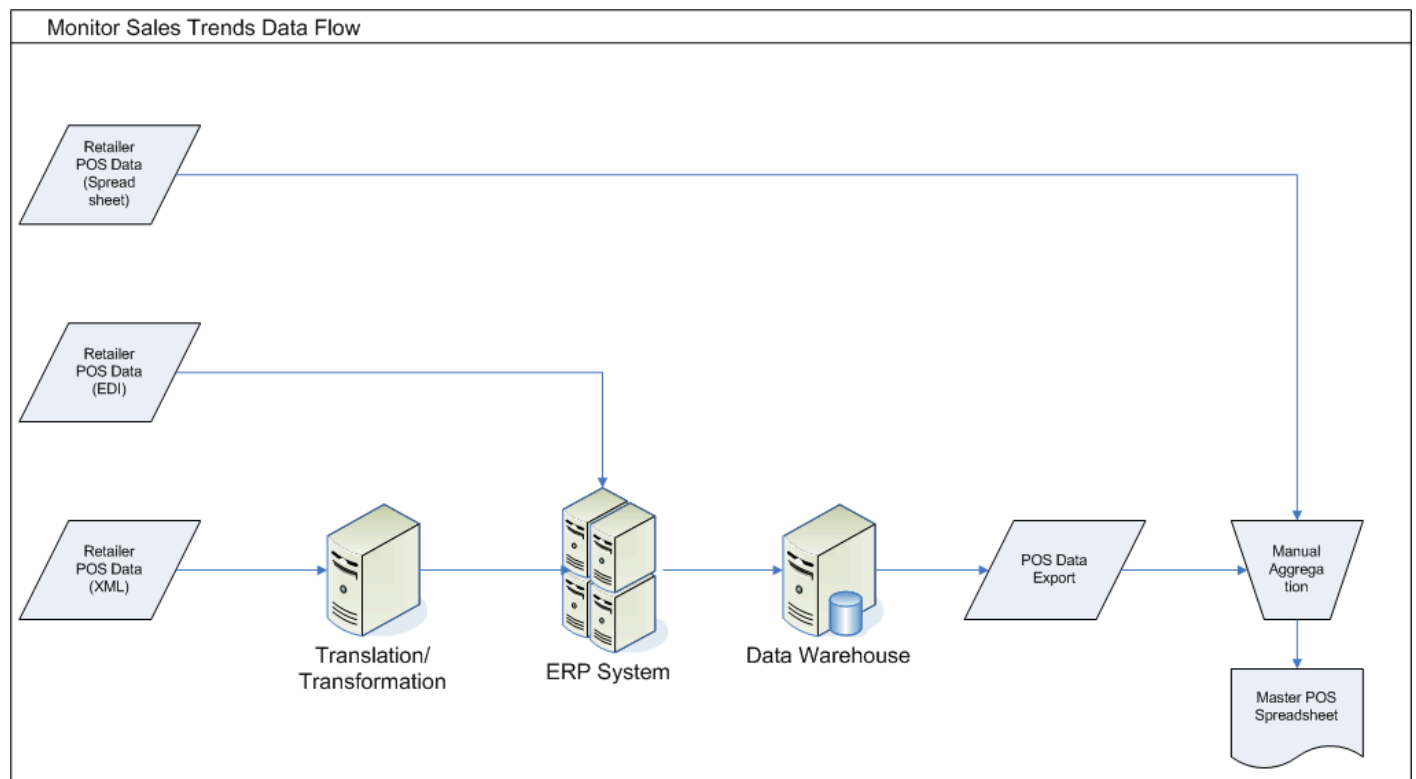
**Make Your Bottlenecks Value-Added Checkpoints.** Bottlenecks may also appear in your process definition where the entire process is stopped until a specific action is performed. While some bottlenecks, such as Approve Remittance, cannot be sidestepped, ask yourself whether multiple layers of approval are always necessary. Ensure that your bottlenecks are truly “value-added” checkpoints and not just red tape.



## ANALYZING YOUR TECHNICAL CAPABILITIES

The next step in the channel audit is to evaluate the technical assets that support your channel processes. For each process you have defined you will want to identify what reports, data files, third party services, and applications are used to support those processes. The goal of this step is identify any technical capabilities that are missing and whether any technical functions are duplicated and can be consolidated.

Let's use a Monitor Sales Trends business process as an example. In this process, your retail partners send POS data to you, which you then clean and normalize, and then send reports to the account managers. To begin, let's identify the data, reports, or spreadsheets that are used by the process. Next, identify where the data comes from and how it got there. Double-check your assumptions again. If you assume the Sales Trends report you review has already been cleaned and consolidated, check to make sure the data you receive from your partners is cleaned and normalized and that your reports don't contain dirty data. If multiple systems are used to accomplish the same task, document them all. For example, if you review sales trends from Retailer A using a spreadsheet, Retailer B using a data warehouse reporting tool, and Retailer C using the retailer's partner website, document them all. Your technical assets in this process may include the POS data communication protocol (EDI, XML, and Spreadsheets), a data translation and transformation software package, a third-party data aggregator, a reporting tool, and reports or spreadsheets. It is often helpful to diagram these data flows and the systems or resources that use the data. The following is a sample Data Flow diagram for the Monitor Sales Trends process.



In this example, slanted boxes indicate data or files, trapezoids indicate manual processes, and boxes with a wavy bottom indicate documents. The systems involved in the data flow process, like a Translation/Transformation engine, ERP system, or Data Warehouse are also included. Also, keep in mind that this diagram outlines a relatively simple process—your

diagram may be much more complex if it includes items like an alerting tool, alerts, or a business rules engine.

Fortunately, you don't need to create data flow diagrams for every process. Many processes use the same systems and data so you don't need to duplicate them, but make sure that you have identified all systems and data needs in use by all your processes.

Once you've identified all the necessary data flows and technical assets, you can use them along with your process definitions to identify where new technical capabilities can improve your channel operations through the consolidation of data or the automation of manual tasks. For example, if you monitor sales trends using a number of different reports and data sources, a consolidated analytics and reporting solution may ease and improve the usability of the reports. Also, an automated alerting and exception management tool may further simplify the process by notifying users of sales trend changes or forecast deviations rather than manually monitoring reports on a weekly basis.

## LOOKING FORWARD

Now you have a thorough understanding of your channel processes, your systems and technical assets, and a roadmap for where and how you can improve those processes and systems. The retail sales channel audit is the first step in achieving channel excellence—knowing where you are is the starting point for getting to your destination. However, there are several characteristics of effective channel organizations—the destination—that we will briefly explore here. These are possible items to add to your channel excellence roadmap.

- **Centralized data hub.** A successful retail sales channel relies on accurate and timely analysis of sell-through, sell-in, and channel inventory. But to analyze, understand, and respond to this wealth of information, you need a centralized “channel data hub.”
- **Process automation.** An efficient retail sales channel automates manual and repetitive tasks such as analytics, monitoring, and standard business processes.
- **Exception management.** An efficient and proactive retail sales channel effectively monitors and manages exceptional channel conditions.

## CENTRALIZE YOUR DATA INTO A DATA HUB

The centralized data hub serves as the go-to resource for updates and information on the health of your retail channel. Information is retrieved from one central location without cobbling together disparate reports and more importantly, automation can be applied to ensure that you are aware of changes in channel conditions. However, if you have decentralized data sources, you will most likely remain unaware of important channel conditions that need your attention.

In a decentralized environment, you are forced to monitor multiple spreadsheets, reports, and systems to get a current view of your entire channel. The processing of data takes longer and finding the data is more challenging. Also, the likelihood of missing a critical event increases when you are forced to look in multiple places for the necessary information. Creating a centralized channel data hub, not only simplifies the process because you only have to look in one place for the necessary information, but also can consolidate views of data across products, regions, and retailers. Additionally, with a centralized data hub, you can enhance your channel effectiveness by incorporating an automated monitoring, alerting, and process automation solution.

Looking at how the information you receive from your retail partners can be centralized is a good start when you are trying to consider what and how you can centralize your retail sales data. Most large retailers today provide inventory and sell-through information to their suppliers via EDI and XML files, or spreadsheets. Many smaller regional retailers are also providing this information freely. If you asked for this information years ago and your partners said “No,” go ahead and ask them again. Times have changed and many retailers are working more collaboratively with their suppliers.

The improvements in product availability, product assortment, replenishment scheduling, and pricing are beneficial to both you and your retailers. Ideally, your retailers’ data feeds should include product sales and inventory levels by store. Also, note the frequency at which your retail partners are able to send you POS and inventory data. As these data feeds will most likely be received in a number of formats, look at your data translation and transformation capabilities. Identify your capabilities to translate spreadsheets, EDI, and XML into a common format for use in the channel data hub.

Once you’ve determined what data you receive from your retail partners, identify what information systems use this data. If you’re like many companies, the data just sits in a spreadsheet or gets dumped into a database for ad-hoc reporting. While occasionally effective as a stop-gap method, this approach doesn’t enable you to adequately support your complex and growing retail sales channel. With a centralized data hub, you’ll have a single place to go to get all your answers.

### **USE ANALYTICS AND AUTOMATION TO DRIVE PROCESSES**

However, simply setting up a data hub does not address the entire problem. Searching for answers in a mass of data is timely and costly proposition. This data hub also needs “automated analytics,” an automatic way to sift through a wealth of data and produce meaningful and useful performance metrics and reports that can then be automatically disseminated to the appropriate parties. Using your process inputs and outputs—analytics, such as metrics and reports—that you identified in your business process analysis, you can determine whether your existing information stores can automatically produce the reports, metrics, and dashboard views that you need to run your retail sales channels. If your data hub can produce the analytics you need, verify that it does and that it provides the information you need to make your decisions. If it can’t, you probably have a technology requirement to address automated analytics. Identify any gaps in the analytics you currently have and what the business processes you defined actually need. These gaps are items that need to be addressed.

### **MANAGE EXCEPTIONS**

Many processes are triggered by recurring retail channel events or exception conditions. How are you notified of these events or become aware of exception conditions? An effective channel organization is notified of these conditions proactively, rather than searching for problems. Review your system’s capabilities to see if it is able to automatically identify exceptions and notify the appropriate individuals of these events. Effective channel organizations use technology to automatically monitor channel conditions, alert individuals of exceptions, and provide supporting data to address the exception condition. If your system does not provide automated proactive notification with decision support information, you have a gap to be addressed on your road to channel excellence.

## **CONCLUSION**

An up-to-data channel audit gives you a clear understanding of the retail channel operation processes and capabilities you have in place today. It serves as your blueprint to all the processes, operations, and technical assets you are employing in your retail sales channels and is the first step towards achieving channel excellence. Once you have documented all your processes and understand what your information systems are capable of providing, it is easy to identify your “technology and process gaps.” And armed with that information, you can explore how you can improve your retail sales channel operations by employing the latest channel strategy process and technology innovations such as centralized data hubs and the use of analytics and automation to drive decision making.

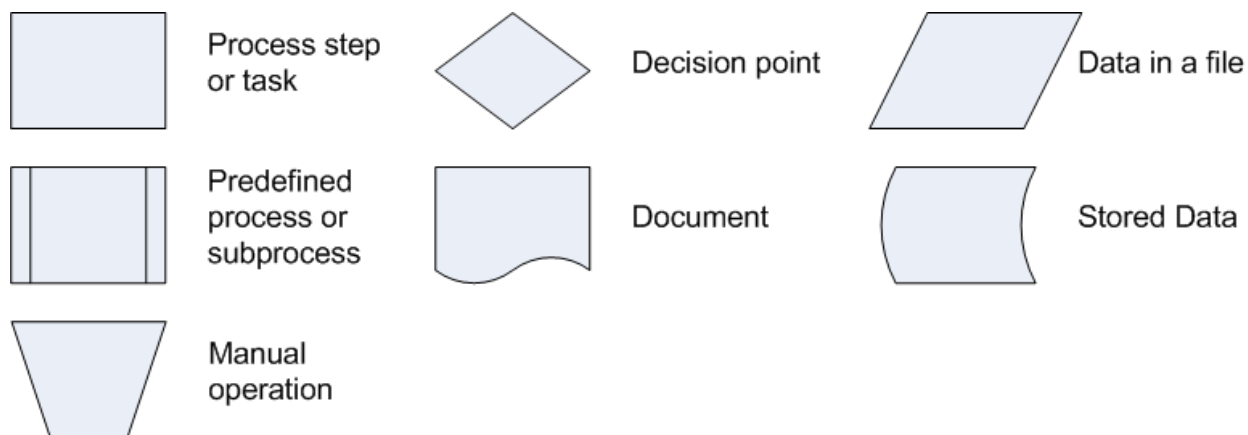
## APPENDIX: SAMPLE TEMPLATE AND FLOWCHART SYMBOLS

### PROCESS DEFINITION TEMPLATE

<b>Process Name</b>	<i>A simple, easy to recognize name for the process.</i>
<b>Description</b>	<i>Explains the purpose of the business process.</i>
<b>Participants</b>	<i>Lists the participants in the business process and their responsibilities.</i>
<b>Triggers</b>	<i>Explains the events or dates that start the business process.</i>
<b>Inputs</b>	<i>Lists the inputs to the business process, including reports and metrics, and the provider of the input.</i>
<b>Outputs</b>	<i>Lists the outputs from the business process and the recipient of the output.</i>
<b>Standard Process Execution</b>	<i>Lists the activities that occur in support of this process. Includes decision points and the path for the standard or common decision. Alternative decisions are documented in the Alternative Process Executions section. A flow chart is often helpful in mapping out the flow of the business process. Note where each participant is involved with the process, where inputs are used, and where outputs are produced.</i>
<b>Standard Process Flowchart</b>	<i>Visually depicts the process as a flowchart.</i>
<b>Alternative Process Execution</b>	<i>Lists the activities that occur in support of this process. Includes decision points and the path for the standard or common decision. Alternative decisions are documented in the Alternative Process Executions. A flow chart is often helpful in mapping out the flow of the business process. Note where each participant is involved with the process, where inputs are used, and where outputs are produced.</i>
<b>Alternative Process Flowchart</b>	<i>Visually depicts the alternative process flows as a flowchart.</i>

### FLOWCHART SYMBOLS

The following image shows some common symbols that can be used when diagramming a process flow.



## **ABOUT RESELLERMANAGER**

ResellerManager is a business analytics and automation solution that helps large manufacturers increase the profitability of their large retail partnerships. It is unique in its focus on manufacturers and their need for automation and visibility into the operational data they receive from their retail partners. ResellerManager processes these large retail operational data streams (such as EDI, Excel, etc.) and transforms them into real-time actionable information. With it, manufacturers are able to increase sales, reduce operational expenses, and provide better support to their retail partners—making them the supplier of choice in their product categories. ResellerManager is a Minority Business Enterprise (MBE) certified company based in Foster City, California, with offices in Seattle, Washington and Atlanta, GA. For additional information, please visit: [www.resellermanger.com](http://www.resellermanger.com).